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# The President's Address

*The following address was delivered by E. L. Ostendorf, M.A.I., of Cleveland, Ohio, when presented as President-Elect at the first Annual Banquet of the American Institute of Real Estate Appraisers, Roosevelt Hotel, New Orleans, Louisiana, November 19, 1936.*

IN selecting me to serve as President of the American Institute of Real Estate Appraisers during the calendar year of 1937, the Governing Council has conferred upon me the highest honor that can be accorded to any appraiser in America. For that honor, I am grateful. I shall strive at all times to be worthy of it.

In accepting the office, I realize that I am assuming a profound responsibility. I am deeply sensible of the fact that the chief officer of the Institute is entrusted with leadership not as a testimonial of personal affection but as a mandate to use his best talents and his best efforts to enhance the worth of the organization to its individual members and to society in general. To that responsibility, I shall be faithful to the best of my ability.

The Institute is not a one-man organization. It is a voluntary society dedicated to the one major objective of developing the vocation of real estate appraising into a profession in the highest and finest sense of that term. In this central objective we acknowledge a profound ethical responsibility not only to those who directly depend upon us for sound guidance in matters involving real estate values but also to our cities, our states, and our national government, all of which are so intimately and vitally affected by improper or proper utilization of real estate.

It is the ambition of the Institute that each and every M.A.I. be looked upon as one who is unquestionably competent and unimpeachably honest. To this end it is our duty to see to it that no one is admitted to membership who does not merit the fullest confidence of the public. Also, it is a debt of loyalty which every M.A.I. owes to his profession to be ruthlessly aggressive in demanding the expulsion of any member who fails to conform to the Institute's standards of practice and rules of ethics in the pursuit of his vocation.

The Institute has, in spite of its youth, won a prestige of which we are all justly proud. But it has just begun to make progress. That progress has been possible only because of the loyal and unselfish support which the individual members have given to their officers. We have progressed because our members have been fired by a splendid group spirit. They have been ready and eager to work for the good of the organization, even at personal sacrifice.

If we are to go forward from here, it will be because of that same group spirit. It will be because of the personal devotion of the individual members to their organization. It will be because M. A. I.'s have and keep the professional attitude. That is the kind of cooperation that I, as your President, shall expect from you. Without it, I shall be impotent, and my administration will fail. With it, we shall advance to higher and finer goals of achievement in 1937, thus contributing **our** share to the well-being of our country and thus deserving a fuller measure of confidence from its citizens.

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## STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF MARCH 3, 1933

Of The Journal of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards, published quarterly at Chicago, Illinois, for October 1, 1936.

State of Illinois } ss.
County of Cook }

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Harry Grant Atkinson, who, having been duly sworn according to law, deposes and says that he is the Business Manager of the Journal of the American Institute of Real Estate Appraisers and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, American Institute of Real Estate Appraisers, 22 W. Monroe Street, Chicago, Ill.; Editor, K. Lee Hyder, 525 E. Michigan St., Milwaukee, Wis.; Managing Editor, Harry Grant Atkinson, 22 W. Monroe Street, Chicago, Ill.; Business Manager, Harry Grant Atkinson, 22 W. Monroe Street, Chicago, Ill.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.)

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HARRY GRANT ATKINSON.

Sworn to and subscribed before me this 22nd day of September, 1936.

ROBERT F. K. RAUSCH. (Notary Public)
(My commission expires March 7, 1939.)

*The* **JOURNAL** *of the*

# AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

*of the National Association of Real Estate Boards*

K. Lee Hyder, *Editor-in-Chief*
Harry Grant Atkinson, *Managing Editor*

Volume V JANUARY, 1937 Number 1

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**This publication is provided as a medium for the expression of individual opinion concerning appraisal practice and procedure and topics allied thereto. The articles printed herein do not necessarily represent the endorsement of the Institute nor of the majority of the members excepting as such statements may be designated as approved by the Governing Council. The Editors exercise only a general supervision of the material and assume no responsibility for the opinions expressed by the contributors.**

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# Habit—Precedent—Tradition

WE have always wondered just when a *habit* becomes a *precedent* and a *precedent* a *tradition*—or do they? Whether or not there is more than a hairline distinction, this seems to be an era for breaking or at least bending all of them. At the moment, for instance, we are in the throes of transition whereby a *habit* of smoking during all of our waking hours is by way of becoming a *precedent* of "one cigar after every meal." Being more or less constitutionally opposed to all change in the established order of things and consequently in a chronic state of peevishness during the past few years, this personal contribution has not helped the situation a whole lot.

However, there are always compensations. A current educational journal carries the cheering news that credits in Greek and Latin are no longer requisites to graduation in a certain "rock-ribbed" Eastern college. Here, truly, is a shattered *habit*, and the word is used advisedly. With but a hazy recollection that "All Gaul is divided into (how many was it?) three parts," carried over from our laborings in Caesar, we quite naturally assume the position that education in Greek and Latin is really nothing more than a *habit*, possessed with the dignity of a *tradition*. At any rate, we are all for this educational advancement.

The former King Edward VIII appears to be our champion breaker of *precedents*. Our courts, unquestionably, take the palm for upholding them. In fact, it appears that no decision upon any matter whatever can be made by the courts of this country until some *precedent* is found for it. It must have been done at least once before and have received court sanction, or it simply isn't right and assuredly not legal.

This situation has made it tough for the appraiser. He is having great difficulty in reconciling what he believes to be the true concepts of value with the *precedents* laid down in the past for finding it. But progress is being made, and the time is unquestionably ripe for a real attack on outmoded valuation "rules." The American Institute of Real Estate Appraisers can and will be a constructive force in this worthwhile endeavor. It is wielding an increasing influence toward sounder principles as well as higher standards of appraisal practice. But this influence is measured very largely by the individual efforts of its members. It is a period of great opportunity for big things, but, as individuals, we must be guided by the highest ideals in our personal practice. We must think each problem through clearly and fairly upon its merits to its ultimate conclusion and then support such conclusion with logical reasoning from the facts and conditions presented.

Thus, and only thus, may we convey our viewpoint to the courts and gradually bring about the evolution that we know to be for the greatest good—the changing of the uncertain *habit* of the past to the sound *precedent* for the future. And may we not thereby be laying the foundation for a real *tradition* for our Institute and its part in advancing the appraisal profession?

*The* JOURNAL *of the*

AMERICAN INSTITUTE OF
REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

Volume V JANUARY, 1937 Number 1

# The Data Program for the Appraisal of Dairy Farms

*By* TRUE D. MORSE

MUCH confused thinking and appraisal practice often result when appraisers find themselves with an assignment to appraise a specialized farm. The confusion is the result of failure to understand that sound appraisal principles have universal application regardless of the type of property. Appraisers well schooled in basic theory do not have such difficulties, as the fundamental practice is the same in all cases, and the variations come only in the character of the data with which the appraiser works.

The foregoing statement is based upon the well-considered and proven conviction that the principles and procedure of appraising set out in the "Standards of Practice for Rural Appraisers,"[1] prepared by the Sub-committee on Appraisals of the National Joint Committee on Rural Credits, will enable any qualified appraiser to determine correct values whether the property be a corn belt farm; a citrous grove; a fox farm; a timber acreage; a cattle, sheep, or goat ranch; or a dairy farm. The method of analysis remains the same; the value principles are the same; the variation is in the data program.

The National Committee has defined *basic value* as "the worth of a property derived from such economic elements as earnings, location, and home uses." The order of enumerating the sources of value has proven a logical order of approach in determining value.

## EARNINGS

The income capitalization method of determining value is the correct primary approach in all rural appraisals. Hence, the starting point in appraising a dairy farm is the analysis of income and the capitalization of the net return.

The determination of net income on any rural property is greatly simplified, and in the hands of most appraisers is most accurately determined, if it is assumed that the property is tenant-operated. The leasing of all types of rural properties is a well-established practice, and in many areas it is the dominant method of farm operation.

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[1] "Standards of Practice for Rural Appraisers," April, 1934, issue of *The Journal*.
"Rural Appraising," D. Howard Doane, October, 1934, issue of *The Journal*.
"Estimating the Value of Farm Lands," True D. Morse, April, 1936, issue of *The Journal*.

In 1930, 42.4 per cent of all the farms in the United States were tenant-operated. The average for a number of representative states is as follows:

| | |
|---|---|
| Indiana | 30 per cent |
| Illinois | 43 per cent |
| Iowa | 47 per cent |
| Minnesota | 31 per cent |
| Wisconsin | 18 per cent |

The principal dairy areas of these states have a high proportion of tenancy, as the following tabulation shows:

| | |
|---|---|
| Indiana Northeast Dairy and General Farming Area | 30 per cent |
| Indiana Northwest Dairy Area | 37 per cent |
| Illinois Northeast Dairy and Truck Area | 43 per cent |
| Iowa Northeast Dairy Area | 43 per cent |
| Minnesota South Central Dairy Area | 30 per cent |
| Southern Wisconsin | 30 to 50 per cent |

The leasing of dairy farms is such a common practice that it is proper to assume a landlord-tenant relationship in arriving at net earnings. Therefore, because of the added simplicity and accuracy, the rent basis should be used regardless of whether the farm is tenant-operated or not. The particular method of operation and quality of management at the time of the appraisal should, of course, be entirely disregarded in determining values, except in so far as it may reflect the property adaptation.

Typical rentals must be determined. The data that should be studied in deciding upon what is typical for the property will include such information as:

1. Actual rental rates in use for the farm, if operated upon a rental basis.
2. Rental rates for similar properties in the immediate community.
3. Rental terms on dairy farms in the general area in which the farm is located.
4. The history of dairy farm rentals for the property, the community, and the general area, i. e., stability, trends, dependability of operators, etc.

Regardless of whether the typical rental is found to be all cash or a combination of cash and crop share, the report should contain sufficient factual information to support fully the rental used in determining income.

Soils are basic, and even though the land may be used primarily for hay and pasture, the soil types should be mapped and the acreage of each determined. By use of the state ratings of the various types, the appraiser cannot only more accurately judge the merits of the soils of the farm but can write into his report the technical soils portion of the appraisal in terms that can be understood by laymen. The appraiser should be prepared, therefore, to obtain all or a substantial portion of the following soil information:

1. The soil types on the farm.
2. The acreage of each type.
3. The characteristics of the surface soil, including texture, color, and fertility.
4. The characteristics of the subsoil of each type with repeated soil augur samples of the subsoil.
5. Tests of both surface and subsoil to determine whether acid, neutral, or alkaline; and estimates of the intensity of the reactions.
6. Available phosphorus.
7. Nitrogen content.
8. The state ratings of each soil type.
9. The correct rating based upon the condition of each type as found on the farm.
10. The susceptibility to erosion; the character, intensity, and ease or difficulty of control of erosion.
11. Completeness of natural drainage, both surface and interior.
12. Character, extent, and effectiveness of artificial drainage.

An accurate appraisal cannot be made without a correct determination of the soils. They must be accurately described and properly evaluated, and the data program for soils must be broad enough to include all of the essential soil facts.

The crop production record must also be determined and interpreted upon the basis of the cropping program and the volume of production that would result from typical management using typical tenants. It has been found that crop data to be most effective should include:

1. Principal adapted crops.
2. Actual average yields of the farm, preferably for as much as a five-year period.
3. Average county yields, preferably for as much as a ten-year period.
4. Detriments affecting yields, such as weeds, grasses, insects, and diseases.
5. Crop prices for the principal marketing months, preferably an average for ten years.
6. Historical facts, such as trends toward other crops and dependability of yields and prices from year to year.

If it is assumed that the property is rented upon an all cash basis, such crop data will be needed to substantiate the soundness of the gross rental credited to the farm. If the rental is figured upon a crop share or a combination crop share and cash lease basis, such facts are vital to fixing acreages, yields, and prices which correctly reflect the income possibilities of the crop land.

The soil and crop records that the appraiser gathers must also be of such nature that they furnish substantiating evidence and numerous cross checks, so that when the gross rental income is set up it will not be inconsistent with the soil and crop features of the farm. Undesirable, low-rating soils and high-crop yields do not harmonize. Crop yields that depart radically from average county yields or actual farm yields are subjects of close study.

At this point in the sequence of the data program, improvements, such as barns, houses, and fences are considered only to the extent necessary to determine that they fully support any cash rentals attributed in whole or in part to buildings. There is a present tendency to pay relatively little attention to buildings in the income capitalization portion of the appraisal due to the fact that rent returns have not as a rule been justifying the cost of the improvements. This has been especially true on dairy farms where the investment in barns is often quite large. As American agriculture attains more age and begins to obtain its equilibrium, it is anticipated that the cash or privilege rents will conform more definitely to the number and value of improvements found on most farms.

The discussion thus far has dealt only with gross income data. To convert gross income to net income, deductible expenses must now be given consideration. The expense items under the assumed rental will be expenditures which a typical landlord would make as owner of the dairy farm:

1. Taxes stand first and often foremost on the list of expenses. The tax data should include separate studies of regular state and county taxes and special taxes. State and county tax data should include:
   - A. Assessed valuation.
   - B. Amount of taxes.
   - C. History of taxes for the farm showing trends and comparisons with other farms in the community.
   - D. History of taxes for the county and state showing trends.
   - E. Corporate or city taxes.

   The close association of dairy farms with towns often brings them partly or entirely within town or city limits. Where this is found, the city tax data must be as complete as that for the state and county.

   Drainage, irrigation, levee districts, road and school districts, and other special tax projects have involved large areas of agricultural land. In Illinois fifteen per cent and in Minnesota about thirty-six per cent of the land area has been included in drainage enterprises.

   Special taxes frequently greatly enlarge the amount of tax data, and for a complete analysis such items as the following must be included:
   - A. Original bonded debts with dates of issue and maturity.
   - B. Unpaid balance of debt.
   - C. Original assessed benefits allotted to the farm.

D. Unpaid assessed benefits.
E. District delinquencies; if delinquent, the provisions, if any, for increasing the farm tax to cover the delinquencies.
F. Possibilities of future bonded debts.
G. Probable regular maintenance charges.

The data for special taxes must be exhaustive enough so that when classified and studied, an intelligent decision can be reached as to what portion should be charged as a deduction from capital value and what part should be included as a current operating expense item.[2]

In involved special tax cases, the data required may be almost equal to the entire balance of the data program for the farm, as a complete analysis of the tax district may become necessary.

2. Insurance cost data usually merely include rates for fire and tornado insurance. In special dairy farm cases where public access is frequent and a regular part of the method of operation, public liability rates may also be needed.
3. Maintenance costs depend upon the building data, which will be discussed later. Due to the extensive improvements on many dairy farms, this is a large and important item of expense.
4. Management costs are frequently nominal as they are normally based upon typical management by owners rather than upon professional services.
5. Fertilizer expenses include only the owner's part of that needed for current crop production and not soil improvement items properly chargeable to capital expenditures.
6. Seed expense data cover only the kinds and amounts normally purchased by landlords. Prices should be the averages for the past five to ten years.
7. Baling, threshing, shelling, delivery charges, etc. are only those costs which ownership bears. Whether data on any of these items will be required will depend upon what rental terms have been assumed as typical.

## CAPITALIZATION RATE

The data accumulated under the foregoing schedule should make possible the figuring of net income. To complete the income capitalization analysis, a capitalization rate must be adopted. If the appraiser is working for a company or organization that fixes the rate to be used, the appraiser has no capitalization rate data problem. If, however, he is not working under instructions as to capitalization rates, considerable basic analysis may become necessary in arriving at the correct rate to be used. The data necessary for such an analysis will include such items as:

1. Money market—both general and regional.
2. Risk—as it affects regularity of net money income.
3. Marketability—of farms in the region.
4. Competition—of other forms of investment.

It is assumed here that the rate used will be fixed upon a territorial basis, which is the most commonly accepted practice, and will not be a rate set for the particular farm and thus changeable from farm to farm within the community.

The viewpoint in constructing the data program up to this point has been entirely that of including the data and only the data needed for determination of net earnings and converting the net earning figure into a property value by capitalizing it at a properly established capitalization rate. From this point on the appraisal process shifts to the comparative and reproduction cost viewpoint, and of necessity the data program should be designed to supply the facts needed in drawing conclusions by these methods as to how each feature affects the property value.

The data have thus far paralleled closely those required for the earning portion of the appraisal of any farm. Note the departure at least in emphasis from this point on due to the application to a dairy farm.

## LOCATION AND COMMERCIAL USE

Markets and market accessibility are of dominant importance to most dairy farms. This feature, therefore, must be fully covered in all of its aspects and must include distances to markets and kinds and dependability of markets and prices.

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[2] "The Influence of Special Assessments on Farm Values," True D. Morse, July, 1935, issue of *The Journal*.

Transportation is another important factor, and the data should show established milk routes and dependability and costs of transportation.

Road information ties in with the foregoing features and should show the character of roads to all markets or other important points of contact.

Essential data for the community in which a dairy farm is located include:

1. Nationality and general reputation of the people.
2. Financial stability and thrift habits.
3. Credit facilities.
4. Available utilities, such as electricity, gas, and telephone.

It is especially important that a dairy farm fit in logically with neighboring farms and the community. It is important, therefore, to know:

1. The extent of dairy farming.
2. The size of the farms in the community and in the county.
3. The comparative productivity, topography, and improvements.

Data will be needed on all hazards affecting the area in which the farm is located. Diseases, weed and insect pests, storms, floods, and all other hazards must be carefully checked.

Improvements have already been referred to under the heading of earnings, but it is at this point in the program that they are given major consideration. In dealing with buildings it is especially easy to recognize how both the comparative and reproduction cost approach enter into this part of the appraisal process. The correct evaluation of the influence of improvements in any farm appraisal requires consideration from both viewpoints, and this is especially true for highly developed dairy farms.

This article will not be burdened with a recital of the detail of the building inspection and the descriptive data that should be recorded. It is sufficient to say that the data must be complete enough so that the reproduction cost can be figured and practical replacement figures shown.

Obsolescence has been especially severe in the depreciation of many dairy buildings, and the appraisal data must clearly show to what extent this has been operative in causing abnormal losses in value. This requires, on the part of the appraiser, a practical working knowledge of what are modern and efficient type dairy buildings. In cases, some expansion of the data program may be required to support the depreciation charged to obsolescence.

If the property is to be credited with any great amount of value due to improvements above that supported by earnings, the *effectiveness* of the buildings must be clearly shown so as to support the extra value convincingly. The extent to which they serve the type of dairying adapted to the farm and the type of dairying common to the community must have major consideration.

An appraiser's protection against slipping into the error of attempting to justify overbuilt farms, such as some dairy farms, lies in full consideration of the buildings from every possible approach, i. e., reproduction cost, reproduction cost less depreciation, practical replacement value, comparative efficiency and value. At the same time, care must be taken to credit a farm with all of the improvement value. Errors can be avoided only if the building inspection has been made in detail and all pertinent data accumulated.

Physical features affecting the desirability of the farm must be inspected and described. These may be of innumerable variety as the following tabulation shows:

1. Shape of farm.
2. Railroad or road right of ways.
3. Pole line or pipe line right of ways.
4. Easements of various kinds.
5. Gullies, streams, ponds.
6. Brush, barren, rocky, or stumpy land.
7. Shelterbelts.
8. Wood lots.
9. Bridges, culverts, sewers.

Natural resources, such as gravel, peat, minerals, timber, oil, and gas must have consideration, and when encountered on a farm, they must be fully investigated. The facts revealed by a thorough investigation will indicate the extent to which such features affect the farm value.

## HOME USES

In the foregoing section, improvements were given consideration from the standpoint of their commercial use value. The home aspects of the dairy farm call for a consideration of the house and yard beyond their adaptation to commercial use. The data program, therefore, should be expanded to cover fully the aesthetic or home appeal of the house and yard. This requires consideration of the architecture, conveniences, arrangement, condition, location, landscaping, walks, driveways, and fences. The importance of these considerations, particularly in highly developed dairy communities, is self-evident and will not be elaborated upon here.

Equipment and adaptation for production of income closely associated with the home rather than the farm are, in some cases, important elements. A common illustration is the roadside market or locations well adapted to such markets.

Recreational and scenic features come up for consideration when particularly attractive views, springs, rivers, lakes, or topography are found on the property. In some cases the farm may be located close to country clubs or highly developed estates. In every instance such features must be investigated to the point that the data will make possible a determination of whether they do or do not affect the property value, and that if there is an increase in value due to recreational and scenic advantages, the amount of this increase can be established.

The kind and quality of schools and churches have a direct bearing upon the desirability of the farm as a home. It is essential to determine the denominations, the distances to each, and the means, costs, and desirability of transportation. In the case of schools, accessibility to good high schools, colleges, and universities is frequently an important consideration.

Even neighbors and neighborhood nuisances must be brought into the data program. The country clubs or resorts and other scenic features previously given consideration from the standpoint of possible addition of value may, under this heading, be found to detract from value. Dance halls, roadhouses, city dumps, rendering plants, sewerage disposals, oil pumps, mine dumps, pits, and drains in many cases detract from the property value, and from a home-use standpoint they may be major considerations.

The character and sociability of the neighbors, their habits of labor exchange, and other acts of neighborliness may add distinctly to the home value. The necessity of complete data covering all such features is obvious.

There has been a rapid increase in part-time farming in the United States, and most of this increase has come from areas adjacent to industrial centers. The automobile and good roads have been a major factor in encouraging the increase of what has been sometimes referred to as "amphibian" farmers. In some industrial centers such part-time farmers are producing a large proportion of the farm products used and sold. Although dairy farms normally make a large use of all available family labor, many cases will be encountered, especially on small dairy farms, where the opportunities for outside employment are very important features. Dairy farms naturally seek locations close to centers of population. Such locations frequently afford opportunities for commuting to cities for part-time employment or the full-time employment of certain members of the family.

## APPRAISAL PLAT

Important in the data program is the detailed mapping of the farm. By the farm plat, a picture of many of the important features of the farm can be presented. The necessity of making the plat complete and accurate in all essential details is becoming more and more understood and cannot be over-emphasized. A complete farm plat is one of the most effective means of placing appraisal facts in a form quickly grasped and easily understood, particularly by lay clients.

A farm plat should show the kind and arrangement of fences; the location of buildings; and all prominent physical features, such as streams, drains, drainage ditches, erosion, timber, brush, and rock. It should also show an easily understood and practical land classification.

## HANDBOOKS AND REFERENCE MATERIAL

Appraisers are equipping themselves with reference material and field equipment to keep at hand all pertinent data that have a bearing upon rural property values. The reference material and field data are best compiled on a state, county, and township basis and should contain all available basic information and historic facts. The type of material and a serviceable method of organization are indicated in the following reference material and handbook equipment now in use by a number of rural appraisers:

*Soil Handbooks, including*:

1. County keys showing soil series and types by color, topography, position, region, and other easily recognized identification features.
2. Soil series sheets. These are brief tabulations of the characteristics of each series and of each type of the series.
3. Soil type sheets. A tabulation of the characteristics of individual types.
4. Soil ratings by types.
5. Discussion of state soils including definitions and glossary terms.
6. County soil maps and bulletins.
7. State soil maps and bulletins.

*Price and Yield Data, including*:

1. Prices by districts of principal crops for ten years tabulated by years using prices for the principal marketing months of each year, brought up to date annually.
2. Yields by counties of principal crops for ten years, brought up to date annually.

*General Reference Handbook with State Maps and County and Township Statistics, including*:

1. Soils and geology.
    A. Soil ratings by counties and percentages of each rating.
    B. Parent materials of soils.
    C. Maps, showing amounts of soil elements and various soil characteristics.
    D. Natural vegetation.
    E. Geological formations.
    F. Water bearing formations and water tables.
2. Topography maps.
3. Drainage, present enterprises and proposed.
4. Irrigation, present enterprises and proposed.
5. Land use areas.
6. Land use problem areas.
7. Soil erosions, general and rated by counties.
8. Climatic factors.
    A. Rainfall.
        (1) Total.
        (2) Seasonal distribution.
        (3) Drouth frequency and intensity.
        (4) Evaporation losses.
    B. Temperature.
    C. Length of growing season.
9. Economic factors.
    A. County economic rankings.
    B. Land values.
    C. Building values.
    D. Size of farms.
    E. Tenancy.
    F. Income sources and land use.

- G. Taxes.
- H. Roads and transportation.
- I. Water supply.
- J. Part-time farming.

10. Types of farming, state, regional, and national maps.
11. Income analysis by types of farming.
12. Crop and livestock statistics.
    - A. Total cultivated acreages.
    - B. Acreage data and maps of principal crops.
    - C. Crop yields with emphasis on historical data.
    - D. Livestock numbers and distribution, statistics and maps.
    - E. Livestock products.
    - F. Production per farm, state and county.
    - G. Production per acre, state and county.
13. Mineral resources, statistics and maps.
14. Industrial influences showing areas affected.
15. Recreational resources mapped.
16. Hazards, maps and statistics.
    - A. Tornado.
    - B. Damaging winds.
    - C. Hail.
    - D. Floods
    - E. Drouths.
    - F. Noxious weeds.
    - G. Insect pests.
    - H. Diseases, plant and animal.
17. Personnel factors.
    - A. Foreign-born.
    - B Negroes.
    - C. Mexicans, etc.
    - D. Illiteracy.
    - E. Education, degree of.
    - F. Criminal delinquency by counties.
18. Population trends.
19. Financial records.
    - A. Tax delinquencies.
    - B. Bank failures.
    - C. Mortgages, per cent of farms and per cent of value.
    - D. Credit record.
    - E. Thrift habits.
20. Laws, local, state, and national that have a bearing upon the desirability of land ownership.

## OBJECTIVES

The data program thus far outlined is designed to supply all needed information for arriving at the basic value of a dairy farm. If a special value other than basic value is desired, it will, of course, be obtained only after determining the basic value of the property. The type of data required for the calculation of special values after the basic value figure has been set will depend largely upon the kind of special value desired. It is obvious that there will be a marked variation between the data necessary in going from basic value to such values as condemnation value, normal sale value, and liquidation value.

A primary objective of the data program is to enable the important facts of the farm to be presented in the appraisal report in three ways, i. e.,

1. A narrative description or word picture of the property in which all of the valuation elements are discussed.
2. A visualization of the farm by presenting it in picture form through the appraisal plat.
3. A mathematical analysis of the property value in which, in detail and step by step, the final basic value is determined.

In this outline an effort has been made to adhere closely to the subject, "The Data Program for the Appraisal of Dairy Farms." This has confined the discussion largely to an enumeration of the kind of data which an appraiser should gather. There has been no attempt to show how the data should be interpreted and how value estimates should be drawn therefrom. References beyond the scope of the data assembly have been merely to explain why certain data should be included and why they are important or deserving of emphasis.

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# The Valuation of "Guaranteed" Mortgages

*By* S. Edwin Kazdin, M.A.I.

THE problem of determining a method for valuing mortgages "guaranteed" by companies now being liquidated or rehabilitated by the Superintendent of Insurance is seriously presented not only to our courts and holders of these mortgages but also to all the creditors and stockholders of the various companies.

These mortgages, which were to constitute not over 66⅔ per cent of the value of the property at the time they were made, in most cases, now represent a higher proportion of the value and in many instances 100 per cent and more. The original purchasers were conservative investors who believed they were getting securities of assured safety. They did not seek liquidity and were entitled to a higher rate of return than was being paid by our savings banks. As a matter of fact, the five or five and one-half per cent which they received was about one per cent higher than the rate being paid on savings accounts. Although the investor usually "renewed" his mortgage every three or five years, he certainly did not contemplate that he might become the owner of a piece of real estate, nor did he suspect that he could not be paid at maturity if he so desired. The "guarantee" of these companies was to be his absolute protection against loss.

Today, however, with the mortgage company either in liquidation or in rehabilitation and the "guarantee" worthless, he must not only continue his mortgage investment in a property which has suffered a drastic decline in value, but he must accept a lower interest rate, based upon the income which the property produces, and take the chance that the improvement in economic conditions will enable him to liquidate his investment. Working against him are the powerful forces of depreciation and obsolescence which he must face during the years that he is obliged to wait, and it is always possible that even with recovery of values to former levels he may still lose.

The holder of a "guaranteed" mortgage, which constitutes ninety per cent of today's value and which pays four and one-half per cent interest after reorganization, for example, is not only assuming risks which an investor in a good mortgage does not take, but he fails to receive a return to compensate him for those risks. The time is fast approaching when machinery will have to be set up to determine the claim which these investors have against the issuing company.

The writer believes that every holder of a "guaranteed" mortgage or certificate who is not paid in full has a claim, even though his mortgage may be equal to the amount that might be considered a prime first mortgage today. At the same time he does not lose sight of the fact that the fixing of these claims must be determined in an equitable and reasonable manner. The possibility of reorganizing a company must not be destroyed by an uncompromising attitude toward this problem, and the rights of all creditors must be fully protected by the Insurance Department and the courts. The position of the mortgageholder must always be fully recognized, but a too zealous concern about his welfare and a selfish attitude must not be permitted to hurt his chances of recovering his investment in full.

### A Reasonable Approach

A reasonable approach to the solution of this problem must be based not only

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upon the definite relationship that exists between the amount of the mortgage and the value of the underlying property, but in addition it must take into consideration the condition of the mortgage money market, prevailing interest rates on other comparable investments, and many other economic factors which influence the value of this type of security. It must be recognized that any market which now exists for the sale of "guaranteed" mortgages and certificates, although much improved recently, offers no criterion of the justifiable value of these securities, for in most cases they are worth more than they can be sold for.

Many people will say that it is futile to attempt to set up a "formula" for valuing mortgages, since there are so many factors that would enter into such a valuation which cannot be standardized. There is no denying the difficulties that are presented in such an effort, but some reasonable solution is necessary, and even though it may not be "ironclad" in its application, it should provide a sensible and justifiable basis for determining the claims of these investors.

The writer recognizes the contention that the value of a mortgage certificate should be something less than the value of a whole mortgage. Although he supports that view generally, there are some exceptions, for instance, where a "certificate" in a mortgage gains value by virtue of the diversification of the underlying securities. Any factor that might be used would be highly arbitrary; the problem presents so many questions aside from those pertaining to real estate finance that it will be up to the Court to make the rule that should apply in each case.

The value of a mortgage is necessarily limited by the value of the property it covers, and whereas it may be possible to formulate a reasonable method for valuing the mortgage, once the value of the property is determined, it is foolhardy to attempt to control the judgment of the competent appraiser by any rigid technique. The appraisal of real estate should be entrusted to men of long experience and good reputation who are especially trained and skilled in this work.

Each single parcel of real estate is peculiar unto itself and must be considered as an individual problem, and an estimate of its value should reflect a careful study of all pertinent data. Although it is well established that the soundest method for valuing income-producing property of the investment type is by capitalizing the net returns, the reproduction cost of the property, its location, its present condition, the range of rentals being paid, the class of tenancy, and many other factors will influence the final judgment of the appraiser.

### WHAT CONSTITUTES VALUE OF A MORTGAGE?

There have been many thoughts expressed as to what constitutes the value of a mortgage. Some have argued that the value of a mortgage is equal to the market value of the property itself, but such an argument seems unreasonable, for the risks attached to the ownership of a mortgage are quite different from those which attach to the ownership of the fee, and the yields commonly expected from these investments are also quite different. Moreover, sales today are made on "terms" which are based upon a reduction of interest so as to create an equity over and above the amount of the mortgage, the "price" in many cases being far in excess of the justifiable value of the property.

Furthermore, a sale of the property at public auction might bring a price considerably under the value of the mortgage. Others would arbitrarily limit the value of a "guaranteed" mortgage to an amount that would be loaned on the particular property in today's market. This is likewise unfair, for a mortgage in a greater amount may have either a higher or lower value. The writer believes that a reasonable approach to the problem of valuing a "guaranteed" mortgage must take into consideration not only the amount that can be borrowed on the property in today's market but also the interest rate of the mortgage and the ratio that it bears to the appraised value of the property. Value must be attached to any income that the investor receives over and above the interest which he would receive on a first mortgage made on the property today.

At the present time there is ample money seeking investment in good first mortgages in amounts up to sixty per cent of the value of the property and at an interest rate of five per cent. Such a mortgage for our purpose will be considered "par" in today's market. With this as a basis, the writer has arrived at a method for valuing, by a capitalization process, that portion of the mortgage which exceeds the amount that would be loaned on the property today. He believes that the sum total of a first mortgage that would be made today and the value of the "excess" amount held by the investor less a deduction made for the "lost" guarantee should result in the reasonable and fair value of the mortgage. To put it simply, the value of a "guaranteed" mortgage should be equal to:

1. An amount constituting sixty per cent of today's value of the property at five per cent—"Par"—PLUS
2. The value of that portion of the "guaranteed" mortgage in excess of this amount, MINUS
3. An amount to compensate for the loss of the "guarantee" and servicing of the investment.

In determining upon the deduction to be made from the value of the mortgage to compensate for the loss of the "guarantee," etc., the writer has concluded that ten per cent of the value of the mortgage would be reasonable. Not the least of the reasons that motivated the writer to decide on that amount is the fact that these companies collected approximately ten per cent of the income from the mortgage to compensate them for the "guarantee" and for servicing the mortgage.

## VALUING THE GUARANTEED PORTION OF THE MORTGAGE

The valuation of that portion of the "guaranteed" mortgage which exceeds the amount that we consider "par" (sixty per cent of the value at five per cent) is based upon the capitalization of income that is imputable to that "excess" at rates of interest that adequately reflect the risk involved. For example, a $10,000 mortgage which pays four and one-half per cent interest, or $450 per year, and constitutes eighty per cent of the value of the property is $2,500 more than the amount that can be borrowed today, $7,500 at five per cent, or $375 per annum. The difference between $450 and $375, or $75, is the income that is attributed to the $2,500 "excess." By capitalizing this $75 at the proper interest rate we can find the value of this "excess" amount. It must be evident that an eighty per cent mortgage that pays five per cent is worth more than a 100 per cent mortgage that pays four per cent. Although the income return would be the same, the "safety" of that return must be reflected in the proper choice of capitalization rates.

The writer employs interest rates which have been carefully determined after taking into consideration the reasonable and justifiable yield of properties free and clear, the going rate on first mortgage loans, and the rate of return that can be expected on second mortgages and on different equity investments in real estate. In addition, the yields on long term competitive investments, such as high grade public utility, railroad, and industrial bonds, as well as government, municipal, and state bonds, were considered. Although there may be ample reason for an appraiser to employ different capitalization rates to determine the income value of a property, the rates used by the writer for valuing the "excess" amounts of a "guaranteed" mortgage were arrived at after a careful analysis and should prove efficient in today's market. Of course, with changed conditions it may be expedient to effect a change in the rates used, but the principles involved would be the same.

### CHOICE OF RATES

In the choice of rates, the importance of reflecting the ratio of the first mortgage to the value of the property and its security was given most serious consideration. Early in his deliberations the writer was impressed by the fact that in valuing these investments it was necessary to limit the proportion of the value of a property which should come within the purview of a mortgage risk. That amount was set at eighty per cent of the appraised valuation. The income on any amount in excess of eighty per cent is clothed with risks not ordinarily attached to mortgage investments and should be capitalized at increasing interest rates which would reflect the extra hazards involved. For example, in the case of a mortgage which constitutes over 100 per cent of the appraised value of the property, the writer uses a rate of thirty-three and one-third per cent (equivalent to three years' income) for capitalizing the income apportioned to that amount of the mortgage in excess of the value of the property. Accordingly, the rates of capitalization will vary with the percentage of the value of the property represented by the mortgage, as well as with the rate of interest that it pays.

The following table gives the various rates used by the writer at the present time for capitalizing income on that portion of a mortgage which is in "excess" of the amount which he considers "par" in today's market (sixty per cent of the value at five per cent interest).

TABLE I

RATES OF CAPITALIZATION TO BE USED IN DETERMINING THE VALUE OF THE INCOME ON THAT PORTION OF THE GUARANTEED MORTGAGE OVER 60% OF THE VALUE OF THE PROPERTY

A—Over 60% and up to 65%—6%
B—Over 65% and up to 70%—7%
C—Over 70% and up to 75%—7½%
D—Over 75% and up to 80%—8%
E—Over 80% and up to 90%—add 12%
F—Over 90% and up to 100%—add 20%
G—Over 100% —add 33⅓%

Note: The value of the amount in excess of 60% of the value of the property is determined by capitalizing the interest remaining after paying 5% on a 60% mortgage. The capitalization rates in Table I are applied directly to the various amounts up to 80% of the value. The income on the amounts between 80% and 90% is capitalized independently and added. The same process is applied to the income over 90% and up to 100% and to the income on the portion over 100%. (See illustrations at end.)

It is apparent that the claim of the holder of a "guaranteed" mortgage would be the difference between the amount of his mortgage plus the arrears and the value of the mortgage as arrived at by the above process which may be resolved into the following formula:

P—A 60% mortgage at 5% interest—"PAR."
E—"Excess" interest on mortgage after allowing interest on P.
R—Rate of capitalization.
G—Value of "guarantee."
V—Value of Mortgage.

$$P + \frac{E}{R} - G = V$$

To further facilitate the finding of the value of a mortgage by the method herein expounded, the writer has set up the following table based upon the above formula. This can be applied to mortgages which come within the specified categories of interest rate and percentage of property value.

### TABLE II

### RATIO OF MORTGAGE VALUE TO AMOUNT OF MORTGAGE AT VARIOUS INTEREST RATES AND AT DIFFERENT PERCENTAGES OF PROPERTY VALUE

| Percentage of Appraisal of Property | 4% | 4½% | 5% | 5½% |
|---|---|---|---|---|
| A — 65% | .7200* | .8100 | .8884 | .9635 |
| B — 70% | .7200* | .7989 | .8632 | .9276 |
| C — 75% | .7200* | .7800 | .8400 | .9000 |
| D — 80% | .7031 | .7593 | .8156 | .8719 |
| E — 90% | .6583 | .7125 | .7667 | .8208 |
| F — 100% | .6105 | .6615 | .7125 | .7635 |
| G — 110% | .5648 | .6124 | .6600 | .7076 |
| H — 120% | .5267 | .5715 | .6163 | .6610 |

(*Up to 75% of the appraised value there is no excess income on a 4% mortgage, but in fact there is a deficiency. Therefore, in order to find the value, the total income is capitalized at 5%, which is the interest on our "par" mortgage and the deduction made for loss of "guarantee.")

Although the above method of valuing guaranteed mortgages has been evolved as applicable to income-producing properties, the factors in Table II might be used to apply to mortgages on homes and properties which do not fall within the income investment class.

The following examples will illustrate the method here proposed.

### EXAMPLE A

80% Mortgages at 5%

| | |
|---|---|
| Appraisal of Property | $200,000 |
| Amount of 1st Mortgage | 160,000 |
| Interest at 5% | 8,000 |
| Deduct interest on "par" mortgage—60% $120,000 @ 5% | 6,000 |
| Earnings applicable to balance | 2,000 |
| Capitalized @ 8% | $ 25,000 |
| 60% Mortgage | $120,000 |
| Value of "excess" amount | 25,000 |
| Total Value | $145,000 |
| Deduct 10% for "guarantee" | 14,500 |
| Value of guaranteed mortgage | $130,500 |

or

| | |
|---|---|
| Amount of 1st Mortgage | $160,000 |
| Factor from Table I | .8156 |
| Value of guaranteed mortgage | $130,496 |

### EXAMPLE B

100% Mortgage @ 4½%

| | |
|---|---|
| Appraisal of Property | $200,000 |
| Amount of 1st Mortgage | 200,000 |
| Interest @ 4½% | 9,000 |
| Deduct interest on "par" mtge.—60% $120,000 @ 5% | 6,000 |
| Earnings applicable to balance | $ 3,000 |
| Earnings on amount up to 80%—$1,200 capitalized @ 8% | $ 15,000 |
| Earnings on amount up to 90%—$900 capitalized @ 12% | 7,500 |
| Earnings on amount up to 100%—$900 capitalized @ 20% | 4,500 |
| Total | $ 27,000 |
| 60% Mortgage | $120,000 |
| Value of "excess" amount | 27,000 |
| Total value | $147,000 |
| Deduct 10% for "guarantee" | 14,700 |
| Value of guaranteed mortgage | $132,300 |

or

| | |
|---|---|
| Amount of 1st Mortgage | $200,000 |
| Factor from Table I | .6615 |
| | $132,300 |

### EXAMPLE C

110% Mortgage @ 4%

| | |
|---|---|
| Appraisal of Property | $200,000 |
| Amount of 1st Mortgage | 220,000 |
| Interest @ 4% | 8,800 |
| Deduct interest on "par" mortgage—60% $120,000 @ 5% | 6,000 |
| Earnings applicable to balance | $ 2,800 |

| | |
|---|---|
| Earnings on amount up to 80%— $400 capitalized @ 8% | $ 5,000 |
| Earnings on amount up to 90%— $800 capitalized @ 12% | 6,667 |
| Earnings on amount up to 100%— $800 capitalized @ 20% | 4,000 |
| Earnings on amount over 100%— $800 capitalized @ 33⅓% | 2,400 |
| Total | $18,067* |

| | |
|---|---|
| 60% Mortgage | $120,000 |
| Value of excess | 18,067 |
| Total value | $138,067 |
| Deduct 10% for "guarantee" | 13,800 |
| Value of guaranteed mortgage | $124,267 |

or

| | |
|---|---|
| Amount of 1st Mortgage | $220,000 |
| Factor from Table I | .5648 |
| Value of guaranteed mortgage | $124,256 |

(*In order to determine the earnings on the amount over 60% of the value which is to be capitalized at the interest rates outlined in Table I, deduct the interest on a 60% mortgage ($120,000) at 5% or $6,000 from the interest at 4% on a mortgage up to 80% of the value ($160,000), which is $6,400. This leaves $400 as "excess" income on the amount over 60% up to 80% of the value of the property. The income on the amount over 80% and up to 90% of the value is 4% on $20,000, or $800. The earnings on the amount over 90% and up to 100% are 4% on $20,000, or $800, etc., and on the $20,000 over 100% of the value, the earnings at 4% amount to $800.)

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# Correction

We wish to correct an error in printing the *Mills rule* as referred to by R. M. Fischer in his article "The Use of 'Standards' in Appraisal Practice" in the October *Journal* on page 385. It should read as follows:

1. One-half of the exposed glass area—in square feet.
2. One-twentieth of the exposed WALL area—in square feet.
3. One two-hundredth of the cubic contents—in SQUARE feet.

(The corrected words are shown in capital letters.) —Ed.

# The Changing Scene and Appraisal Progress

*By* MAURICE F. REIDY, M.A.I.

WE are living in an exciting and intensely interesting time in the history of the world. Whole peoples, whole nations have gone through the throes of social and economic revolution. Forms of government that had survived for centuries have been overthrown and abandoned, and new dangerous experiments are being tried. Nations with many centuries of civilization and order in their history are threatened with chaos. A new distribution of wealth, sometimes a destruction of wealth, is being advocated by radical but sometimes strong minorities.

These happenings have had an influence upon the choice of the investments made by a great many people, and while these occurrences, some of them so far away, might seem to have only a remote influence upon the things which the real estate appraiser has to study, there is no question but what his task today has become more difficult than at any time during the past twenty years.

During this time we have experienced constantly changing conditions. There has been no such thing as price stability. Constant fluctuation of price levels and commodity costs has been the rule. Opinions or predictions of market values made in any one year were shown to be utterly out of line during the next few succeeding years, and our experience makes us wonder now whether it was not a prophet that was needed in the valuation of real estate and not an appraiser. This period has been one of economic convulsions—defying economic judgment—challenging all knowledge that was based upon experience—and carrying a constant threat to the appraiser of sound fundamentals that not he but the speculator was the man to guess at market prices.

## MARKET PRICE VS. VALUE

Now, of course, this all refers to *market price*—not real value—, and during the period we have been reviewing the true relation between market price and real value has been much misunderstood. That there was a difference between the two, the real appraiser always knew. That price and value should be relatively the same he always insisted. But a period of speculation is, in some measure, a period of madness. Economic reason does not prevail at such a time. There is a mad urge for profit—quick profit. The desire for long-time, reasonably safe investment is absent in a period of speculation, and at that kind of a time it is the speculator who rules the market and his motto is, if he has a motto, "After me the deluge." The deluge came, and we hope now that it has passed.

We have learned some lessons from it. We have been taught that fundamental economic principles *do yet prevail*—that in estimating real value we have no new principles to absorb—and that simple arithmetic or simple mathematics is still an exact science. It has taught us that earnings or service rendered is still the true measure of value—that speculation may change prices but it does not alter values—that the true value of a piece of real estate is to be measured by the benefit it will render to its owner in earnings, in service, in its possession and not by that price that an incompetent, quick-profit-seeking speculator may declare it to be.

These are the fundamentals that have been confirmed in our minds. There is nothing new about them; nothing is revolutionary, but to all of us there is something new to be learned that is of great importance, especially to the real estate investor, the broker, and essentially the appraiser. Chiefly, it is this: that there is a science in appraising that we have not heretofore realized; we know now that we are only approaching a knowledge of this science, that we are just beginning the practice of it, in its kindergarten stage, but that its truth is compelling. We have come to realize that there is much about this commodity, *real estate,* which we have been handling and appraising that we do not know, that there are related economic facts having their influence upon the value of real estate which we must learn if we are to understand its value.

There have been speculative periods upsetting economic conditions in this world before our time, we all know. One does not have to be a profound student of economics to have learned that time and again our civilization has experienced them. They had them in Babylon 4000 years ago; they had them in Egypt 3000 years ago; they had them in the Roman Empire 2000 years ago. Europe has known them, and our own country has experienced them before. (They have nearly always followed a great expansion wave, and about every one of these speculative periods has been followed by a temporary collapse.)

Sound judgment and a keen analysis of all the circumstances attending the recent speculative period might have warned us of the result that must inevitably follow the kind of activity that was going on. There *were* men who made doleful predictions; there were men in banking and finance; some men in government; men in industry and commerce; and some men even in real estate and in appraising who tried to utter words of warning, but they were not accepted as prophets.

## THE APPRAISER'S TASK FOR THE FUTURE

What is the appraiser's task for the future? First, it is to learn—to learn more—and to keep on learning. It is to find out what effects certain attending circumstances have upon a real estate situation. It is to know that sound principles must be followed if our investments are to be protected.

How shall it be done? Not by standing alone as individuals, not by relying each of us upon himself, but by combining and distributing our knowledge, by going to school to each other, and by establishing research institutions that will in time teach us what real estate really is and how other things affect it.

If we as individual appraisers attempt to stand alone, we shall never reach that point of efficiency; we shall never fully develop our own ability; and we shall never have the rounded-out knowledge that is needed to make good appraisals.

What then should we do? A very few years ago a group of us got together and decided that if we could distribute to each other the little that we each knew, we would be able to make better appraisals than we had been making. The result was the formation of the American Institute of Real Estate Appraisers. We now have some 700 members around the country, and not one single one of us can say that he is not a better appraiser since he has had the advantage of the experience of the other fellows. And yet we know that we have only made a beginning.

Where would the science of medicine be today if each doctor had to rely upon his own effort? Upon his own experience? Upon his own research? Would the great legal minds of today have that immense storehouse of knowledge that they possess if each lawyer were depending upon his own experience or his own studies? Think of the loss to mankind today if the physician had not had the inestimable benefit of the distribution of the knowledge gained in medicine for centuries.

And now think what has been passed down to us by the appraisers who preceded this generation. Has there been anything of real value? Has there been anything at all?

We in the Institute are determined: first, that we are going to be better appraisers than we were before and that we are going to have the knowledge gained by all of us available for all of us. But this is only the start. We are going to have schools for the distribution of this knowledge, and some day we are going to have research institutions that will go into the science of appraising, into the knowledge that is necessary to determine values in a *profound* way.

Now we are just the pioneers. Perhaps we are only in the kindergarten class, but those who succeed us are going to have the benefit of what we have learned, and we are going to teach the young appraiser who is ambitious for knowledge, who has a pride in his work, and who wants to do a better job, all of those things which we, ourselves, have learned.

We are assembling a library; we are trying to departmentalize so that if one of our members anywhere has a problem that is new to him, he can write to headquarters and ask what there is available which will give him a little light on that subject.

In addition to our library, we organized appraisal courses at the University of Chicago in the Summer of 1935, and 125 men from all over this country assembled there for four weeks and went into an intensive study. We had, as the faculty of these courses, men of wide experience who had made a serious study of appraising methods. This year the courses were continued, and we added to them a two weeks' special course in advanced appraising. We have found that men are eager for this knowledge and that many of the important lending institutions throughout the country are sending some of their staff to get this training.

## APPRAISERS IN OTHER COUNTRIES

Two years ago I spent the summer in England attending the Fifth International Congress of Appraisers. There are twenty-one countries in that Federation, and it was the first time that our country had been asked to send a representative. The requirements, especially in England, for membership in the Chartered Surveyors Institution are much more exacting than we can hope to have for some time to come. There, they require a three-year special course at Cambridge University or the same length of time at their own College of the Chartered Surveyors in London. The subjects taken up include legal training, the profession of civil engineering, higher mathematics, soil analysis, etc., and one does not become a full member until he has had in addition to these studies the experience of several years in actual work. They are at present, in England, making scientific research into the qualities of different woods that go into a house and building construction.

The surveyor, as he is called in England, must have experience also in the management of properties, in the leasing and sale of properties, as well as experience in appraising.

## THE CHANGING SCENE

Until the past few years appraising of real estate was rather a simple task with us in this country. Pretty generally, it was about as simple as the report of Abraham Lincoln, when he was asked one time by a fellow lawyer in another city to inform him of the circumstances of a lawyer who was a neighbor of Lincoln. Lincoln's reply ran something like this—and I am quoting from memory:

> "Dear Mr. Blank:
>
> "You have asked me to advise you as to the circumstances of Mr. A of this town.
>
> "He has a wife and three children. These should be worth $150,000 to any man.
>
> "In his office he has a table and two chairs. There is also a large rat hole in one corner of his office that will bear looking into.
>
> Yours truly,
> A. Lincoln."

Although this answer was very simple and very brief, it really did tell, in a few words, the whole situation. If you analyze it, you will find that Mr. Lincoln said that the only thing of value that this man had was something of a domestic value for which there would be no market. His inventory of the meager office equipment showed that the man had no books and, therefore, was not a student of the law; also, that he had very little practice, or his equipment would have been greater. And then the reference to the rat hole was certainly enlightening because it told the fact that this man was careless, was sloppy, was without ambition, and that in all probability the future held little prospect for him.

Just how much attending circumstances may influence the real value of a thing is cited in these two old examples, and I wish I knew the man who first stated them, because I am greatly indebted to him as I have used them many times.

A bag of gold is a thing ordinarily of great value, but there are circumstances that rob it of its worth. What is a bag of gold worth to a man drowning in the sea if it is thrown to him? It will hasten his death; it will make him sink the faster. Therefore, under those circumstances a thing of great *value* not only loses its worth, but its possession would be disastrous.

Oftentimes, on the contrary, a thing of little worth may have tremendous value. What is a cup of water worth to a man dying of thirst in the desert? It may save his life, and, while of itself of little intrinsic or market value, it becomes under those circumstances a priceless thing.

A diamond is a mineral. It is dug out of the earth. Its cost of production is slight. What gives it its great market value? As a useful thing, it's just a tool; it will cut glass; and it will cut steel. As a tool, it would not command a great price, but there is a desire for ownership of diamonds. Milady would wear them; she wants to possess them; she wants them in a ring, in a necklace, in a bracelet. And this desire for ownership, being pretty general, has lifted the market price of diamonds from their useful value as tools to that of almost priceless ornaments.

Have you ever tried to analyze just how much influence the desire for ownership has upon the market price of real property? If we took away from housing the ambition of the mother and the father of a family to own the roof that is over their heads and that protects their children, would it not make a tremendous difference? If no one wanted to own and operate office buildings or other real estate investments of a commercial nature, just what would we do? And yet by high taxation, by high cost of financing, we have done more in the past few years to kill the desire for ownership of houses and of real estate in general than we seem to realize.

### REAL ESTATE AND ITS RELATION TO TOTAL WEALTH

Let us think of this for a minute: Real estate is estimated by many authorities to constitute about one-half of the entire wealth of our country. Figures vary a great deal, but there is some basis for estimating that such real estate wealth is about 175 billions of dollars and that it is equal in the volume of dollars to all other commodities combined. Yet there has been very little or almost no scientific research made to acquaint us with the significance of this tremendous form of wealth or what effects certain things have upon it.

If we take just this item of taxation alone, we can find by just plain thought that it is one of the important things that has influence not only upon the price that prevails for real estate but also upon its actual value.

A short time ago I worked out a little study on the situation in my own state of Massachusetts. It is estimated that our real estate there has a value of about seven billions of dollars and that this real estate pays, in taxes, to the different units of government in the state about 180 millions of dollars a year. Most of us think this is an excessive, unwarranted, unwise amount to impose upon real estate for *its* part of the public expense.

I think there would be general agreement in the minds of those who had given it thought that this tax total should be reduced by some twenty-five per cent to thirty-three per cent. Let us assume for the minute that the taxes collected by that state from real estate should be thirty-three per cent less. That means that real estate is paying in excess taxes, sixty million dollars per year.

Now all real estate is not of the revenue-producing class, of course, but again let us assume that half of this real estate is revenue-producing in one form or another—either in tenements, stores, offices, or factories, etc. We would then have about three and one-half billion dollars of revenue-producing real estate, the net income of which was reduced by this excess tax to the extent of thirty million dollars.

Again making an assumption that this revenue-producing property was not yielding more than a net of five per cent on its investment (and I think that would be liberal), it is reasonable to figure that the revenue-producing real estate in Massachusetts, measured by the capitalization of its net income, was reduced in value by something like $600,000,000, this reduction being due entirely to the imposition on that real estate of this unwise, unfair, unsound, *excess* tax burden—and this burden, remember, is borne alone by just the one group of people owning that form of property.

If we extend the same reasoning to the non-revenue-producing properties, such as the service properties, homes, farms, etc., it can be easily estimated that the excess taxes imposed have reduced the values of all Massachusetts Real Estate by $1,200,000,000.

This is a terrible price to pay for what Massachusetts gets for the extra sixty millions collected in this form. These are things that should be in the minds of appraisers today, because these are the things that have an influence upon value.

### AN APPRAISAL OF A BANK BUILDING

One of our members recently made an appraisal of a bank building. It was a specially designed, owner-occupied, centrally located, modern bank. When he finished lining up all the data that were included in his appraisal report, and after he had set his figure on the land worth and the building value, he did some things that seemed to me to be very interesting, which I shall present to you briefly as just a suggestion of some of the things not ordinarily included in an appraisal report but which, in this case, interested his bank client very much and also brought very favorable comment from some of the Federal Reserve System people.

His report was complete as an appraisal report, but these further studies were in some measure just check-ups on his own figures. His finding of the value of the property, land and building, was about $750,000. The bank had been charging itself $75,000 a year rent. He reasoned as follows: Is there a hazard to the bank in the ownership of this property, or is there any hazard that should be considered in finding the value of this property if it could be seen that the bank was carrying a property too expensive for itself and that, therefore, some day it might have to abandon the property and put it in the market, in which case this specialty bank building probably would not find a ready buyer. In fact, it might be necessary to demolish it and construct a building of a different commercial type. So he set about to satisfy himself that the bank was justified in this ownership.

It was not easy to find a "yardstick," but after a good deal of thought and conferences with the Federal Reserve Bank people and others he learned that probably a reasonable "yardstick" to apply was to find the general experience of similar banks as to what percentage of their gross earnings they could afford to pay as rental for their property. He then took the gross earnings of this bank for ten years and tabulated them and found that in that particular part of the country the general experience of similar banks was that the average charged rental over the same period of years was about 6.15 per cent. He took the gross earnings and found that this bank's expense was 6.2 per cent of its gross earnings, almost identically the same as the average. This established fairly well the fact that the rental cost to this bank was absolutely in line with the experience of other banks. Taking that as a sample "yardstick," he justified his finding of value, and it also seemed to justify the ownership of that property in that bank. This was very interesting, but he set out further.

He said: Let us consider this piece of property as just real estate and assume for a minute that it is in other ownership and leased to this bank for $75,000 a year. What would the result be as to return on that amount of investment? He then took all operating and maintenance charges that ordinarily are put into an operating sheet, set them off against the rental of $75,000, and found that as a piece of real estate there was an operating profit yearly of about $38,300.

Now there is no "yardstick" as to the rate of capitalization that a bank should apply to its investment in its own property, but by inquiry he found that there was a pretty moderate rate of return based upon general experience. Applying then a rate of five per cent, which seemed to be justified, he found a capitalization value of $766,000. His appraisal figure, you will remember, was $750,000.

This seemed to be another confirmation, at least in a measure, of his appraisal figure, and it seemed also to justify the investment in that property, because here was a theoretical tenant paying a rental which from general experience seemed to be a fair rental. This was also very interesting.

However, he went into another study; he said: Let us take that $750,000 and put it into a different type of commercial building, theoretically, on the same land and see what it would produce as a small department store or ladies' specialty shop, four stories high and containing approximately the same cubic content as the bank building. He applied a front foot neighborhood rental to the first floor and the average rental rate on the other three floors in the same neighborhood. His calculation turned out to be a gross rental of about $75,600. This seemed to be another justification for the amount of money invested in the property and further confirmation of his appraisal figure.

He made one more test, reasoning this way: Even though the bank is justified from its earnings to pay the cost of maintaining and operating this building in this location and even though the same amount of money invested in another kind of a building would bring about the same gross rental, is it possible that this bank was justified in putting up a building that cost as much as this did? So he found out from some bank sources and from the Associated General Contractors Headquarters in Washington what the experience had been as to the cubic foot cost of similar buildings for banks during that same period of ten years. The variation ran from 75 cents to about $1.50 per cubic foot except in some few cases of especially expensive buildings. He found that the present value of the building, in his computation, amounted to 78 cents per cubic foot, which, after having deducted depreciation and having allowed for wastage in certain remodelling that had been done in the building, was quite in line with this production cost information.

Now, none of these extra things needed to be in that appraisal report, but they were all very interesting studies both for him and for the bank people, and I can say to you that the result of this study was some very profitable further work for this appraiser.

## CONCLUSION

Better appraisals in the future will mean safer investments—safer investments in property and safer investments in mortgages.

If we can do anything to make these investments more secure for people, we shall be doing something of benefit to all the people interested, and the result will finally be of very material benefit to every broker and to every appraiser. Competent, intelligent appraisals should be the rule, and there have been times when they were the exception.

The activity of the Institute means progress in the science, or the business, of appraising property, benefiting in the long run all real estate men themselves and all customers or clients of the real estate men, and yet there is very largely an attitude of indifference toward it. Some appraisers take the stand that they have nothing to learn. If this be true, they are fortunate men indeed, but it cannot be true of the generality of appraisers.

The aim of our Institute can be expressed very simply. It is to make better appraisals. It has now been in existence five years, and we have had *results*. Not only has the quality of our own work been improved, not only have we all learned a great deal that we did not know before, but the results measured in dollars of income have been wholly satisfactory. Our Institute is gaining prestige; it is recognized now by many of the financial institutions of the country, by many of the courts, and by many of the Departments of the Government.

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# Planning the Appraisal

*By* K. LEE HYDER, M.A.I.

ONE of the most successful teachers I ever knew had what was probably one of the world's toughest assignments. He taught "Freshman Math" in the college I attended—and any educator will admit that that is a job of teaching with a capital "T". What's more, he taught 'em—that is, he taught 'em—or else! And a student seldom dropped his course. This in itself was not particularly significant. It happened, however, that this professor occupied the chair of mathematics and had a number of assistants. At the time he was internationally known as an author and lecturer in higher mathematics and was recognized as one of the seven greatest mathematicians in the world.

One would have supposed that "Freshman Math" would be turned over to an assistant. To handle the subject himself was like a master of literature teaching a kindergarten class its A. B. C.'s. I thought this so strange that one day I asked him why he did it. He answered simply, "The foundation is the important thing—the rest will take care of itself."

I have never forgotten this, nor have I forgotten the direct and forceful methods he used in his classes. I recall particularly his one basic rule—before the student could begin the solution of any problem he had to *write it down*—word for word and figure for figure—just as it was in the book or on the board. Under this, he had to *write down* just what he thought he was trying to solve and any assumptions that were involved. That is, he had to state the *problem* and understand in the beginning what he had to try and do. The best way to be sure he did understand it was to *write it down.*

It seems to me that this basic rule may have been largely responsible for this man's success as a teacher of mathematics. Would not a similar rule apply to almost any other field? I think it does apply to appraising—not only in teaching appraising but—what is more important—in making appraisals. *Write down the problem* and decide in a broad way just *what you are going to do.* The detailed investigation will thereafter be far easier to accomplish.

### THE PROBLEM

Now, what is the nature of the problems the appraiser is called upon to solve? No two of them are ever exactly the same.

The appraiser is directly concerned, perhaps, with more differing lines of human endeavor than is the follower of any other profession. To be successful he must have a working knowledge of many of the special phases of economics, trade and business, banking and finance, accounting and law. He deals with property and property facts, but the property may be both tangible and intangible, and the forces reflected by human behavior under varying conditions are important factors influencing the work he is called upon to perform.

Appraisal service covers almost an unlimited field, first, as to the type and character of property subject to appraisal, and, second, as to the purpose for which the appraisal is desired. The defining and understanding of *the problem* is, therefore, the basic starting point in undertaking any appraisal engagement, since the extent of the investigation, the character of data assembled, as well as their correlation and interpretation, are all directed toward the solution of such problem through the appraisal.

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This article is one of a series adapted from the material developed for the Case-Study Courses which the Institute offered at the University of Chicago in the summer of 1936.

### TYPE AND CHARACTER OF THE PROPERTY

We should keep clearly in mind the distinction between *income* or *investment property* and other types of real property. The usual classifications drawn very largely upon the basis of the character of use may be classified as:

1. *Industrial Property*—such as a manufacturing plant.
2. *Investment Property*—such as an office building or an apartment house.
3. *Natural Resource Property*—such as a mine, an oil well, a water power, or a stand of timber.
4. *Service Property*—such as a public school or state building.
5. *Residential Property* — a private single-family home.
6. *Agricultural Property*—a farm or orchard.
7. *Public Utility Property*—such as a light and power, water, or gas plant and distribution system.

An appraisal for the same underlying purpose might and usually does vary materially, both as to the scope and methods used, for each of these types of properties.

Confining ourselves to the second group—Investment Property — we find that this broad classification in itself embraces many types of income-producing properties that are still included directly under the basic definition, such as:

A. Office Buildings.
B. Apartment Houses, Tenements, Hotels, and Clubs.
C. Store Buildings.
D. Garages.
E. Department Stores.
F. Etc., Etc.

Again, we may subdivide "B" above into:

a. Flats and Tenements.
b. Apartment Houses.
c. Residential Hotels.
d. Commercial Hotels.
e. Clubs.
f. Etc.

The subdivision might go still further until we finally reach the exact designation under which any particular property might be classified.

What fixes these classifications and subclassifications? Primarily, it is the kind and extent of *service* offered to the tenants of such property in conjunction with the use of the space itself. Two structures may be closely similar as to the brick and mortar and steel composing them. Yet the standards of cost, income and expense, and total value may vary between wide limits due to the character of service offered. The drawing of definite distinctions in property types may be virtually self-evident, or it may be a hairline division difficult to determine.

For example, there should be no difficulty in distinguishing between a *tenement* and a *commercial hotel*. However, an *apartment house* might offer service little different than a *residential hotel*. Again, many *commercial hotels* cater to permanent guests, and *residential hotels* offer a greater or lesser degree of hotel service, so here again the distinction is not well defined.

Apartment houses in themselves may offer rental units completely furnished, partly furnished, or completely unfurnished; they may offer maid service or not, as the case may be, and hence within a single designation of "apartment houses" a wide range in service as well as facilities may prevail.

This brings us back to the basic factor that creates these fine gradations—namely, *the character and amount of personal service offered*. Following through this thought, we may find that in a certain city a commercial hotel may offer transient rooms for, say, $4.00 per day. In the same locality an equally desirable room may be obtained by the month in an apartment building at $50.00—or less than $2.00 per day. Now, what is the reason for this? The investments in land and improvements and even in the furnishings in the two rooms appear to be about the same. It means simply that the added price is paid for hotel service.

It is, of course, not entirely the service itself but in part the *availability* of service. The occupancy of the apartment should be, let us say, ninety per cent to be profitable, whereas the commercial hotel might be equally successful on a sixty-five to seventy-five per cent basis. It may be impossible to get accommodations for a night in the apartment building, whereas the commercial hotel is ready to receive guests at any hour of the day or night. Some one must pay for this *availability* of service.

All of this is more or less self-evident to anyone. It is the appraiser, however, who must interpret these distinctions in the terms that are pertinent to his value estimate. He accomplishes this in part through the use of great care in interpreting and using the comparative data assembled on other properties and in part in the methods adopted in estimating, distributing, and capitalizing the anticipated net income forecasted from his investigation.

The appraiser must constantly bear in mind the basic principle—that *in any investment property there are fundamentally two properties that are to be considered:*

1. The real estate itself, that is, the land and improvements.
2. The going enterprise, that is, the business itself—the intangible factors reflected in the service offered and rendered and which is being purchased by the tenants.

When the appraiser starts with this fundamental principle he avoids the mistakes of comparing rental incomes, occupancies, etc. of other properties which are not offering comparable service to the property being appraised.

It is not always necessary, of course, although frequently desirable, that the attempt be made to value the real estate separately from the going business. In a large and complex property, however, such as a residential hotel (and invariably in a commercial hotel), the proper capitalization of income will usually be more readily determined and supported by a consideration of such distinction, both in the allocation of income and the capitalization rates applied thereto.

In other words, in a large hotel the value of the going business may be best considered independently from the real estate in the value estimate, whereas in an office building the income is due almost entirely to real estate and may usually be considered in total.

It is readily apparent, therefore, that the type and character of the property are fundamental and as such become a part of the problem itself.

### PURPOSES OF APPRAISAL

Appraisals are required for many different purposes, including:

1. Purchase and Sale.
2. Financing.
3. Insurance.
4. Ad valorem Taxation.
5. Income Taxation.
6. Inheritance Taxation.
7. Etc., Etc.

Here again the purposes may be classified in greater detail. For example, an appraisal for *purchase and sale* may be for:

A. Transfer of full interest between private parties.
B. Expropriation (condemnation) in whole or in part.
C. Merger or consolidation.
D. Etc.

And *financing* may be contemplated under:

A. Private loan.
B. Public bond or stock issue.
C. Reorganization under bankruptcy act.
D. Etc.

Any one or all of these general purposes of appraisals may be further subject to specific qualifications or restrictions under which the appraisal of the property is desired, such as:

a. For continuation of its (the property's) present use or its highest use assuming competent management.
b. For use in connection with a proposed conversion to meet conditions other than those existing or for which designed.
c. For a special use which might create a higher or lower utility and value.
d. For total or partial liquidation.
e. Etc., Etc.

Now, it is apparent from the above outline that the "value" assigned to the property might vary between wide limits depending upon the program for its future operation. This, of course, is true and means simply that the basis of value in "the problem" is the "value for use." However, "value" unqualified contemplates the "highest and best use" and unless the appraiser is limited by "the problem" to a specific purpose or use, then his endeavor would be to find such highest and best use and value the property accordingly.

Where the appraiser selects the highest use and obtains his value estimate upon such basis, his opinion of *value* may be expressed without qualification—otherwise, irrespective of the limitation, he should qualify his estimate as to the purpose adopted.

For example, an old commercial building is owned by a local estate. The estate desires to convert it into a more modern shopping mart and wishes to get a loan for such purpose. The appraiser in this case values the property at what he believes it worth for conversion (and may and usually does express opinion as to its worth "when, as, and if" converted). During his investigation he might find a different type of use that would be better, and therefore his value and his report must be qualified as to the basis used. Such condition is not usual, and if he did find a better use, the estate would no doubt wish to adopt it.

In mergers, it frequently is found desirable to abandon certain entirely separate real estate units (such as wholesale warehouses, etc.). This brings up the necessity for appraisal of these specific properties upon a liquidation or forced sale basis.

It is seen, therefore, that the purpose of the appraisal is fundamental and as such becomes a part of the problem itself.

Let me repeat that and summarize the fundamentals of the appraiser's problem:

1. The *type and character of the property* are fundamental and as such a part of the problem.
2. The *purpose of the appraisal* is fundamental and as such a part of the problem.

The broad scope that the problem may cover even when confined to a particular investment property may be suggested. For instance, take a commercial hotel which may be appraised for:

1. Purchase and Sale,
    A. For expropriation proceedings for acquisition by a city,
        a. Assuming continuation of operation under highest and best use;

or appraised for:

2. Financing,
    A. For public bond or stock issue,
        a. For use in connection with conversion to meet conditions other than those existing or for which designated (say, as part of a new hotel chain).

It is apparent that the appraiser's answers might vary widely as between the two requirements and, yet, both of his value estimates be sound and reasonable.

We might thus continue with many combinations—each presenting a separate *problem* and all concerning the same type of property. When the type changes, the same scope of varying conditions may be present. It is evident, therefore, that the problem may vary widely and must be fully understood before undertaking the appraisal.

In order that there be no confusion, it should be remembered, of course, that whereas there may be many problems, each of which might have a different answer, there should be but one *value* (where value is estimated without qualification) for a property, that is, the value for its highest and best use. (However, there may be more than one property in an "investment property enterprise.") *Value* is usually sought for where the problem involves purchase and sale and financing.

So much for *the problem.* We have "written it down." The next step is to lay out a plan for its solution—this solution not only to be correct as to results but also to be accomplished with the minimum time and effort—and expense—which is a most important factor to the practical appraiser. This *plan* under our terminology is embraced in the "preliminary survey."

### THE PRELIMINARY SURVEY

In a broad way it might be said that the accountant deals with the past, the builder with the present, and the appraiser with the future. This is not literally true, of course, as far as the appraiser is concerned. Perhaps the failure to understand properly the function of the appraiser in our economic and business structure accounts primarily for the apparently differing viewpoints of students and writers on valuation. There is too great a tendency to over-emphasize economic theories and to minimize the practical process of making appraisals.

### THE APPRAISER'S RESPONSIBILITY

Let us consider this for a moment. It is true that the value of a property as defined in the Institute's *Appraisal Terminology* is "the present worth of all of the rights to future benefits arising from ownership"—a question of futures. The appraiser's problem, however, is a more concrete matter. He actually deals with the *present,* and his basic problem is to estimate the reasonable worth of a property now, in prospect of the future, realizing, of course, that the justification for his estimate is something that cannot be definitely shown except through the passage of time. In so far as possible, of course, he attempts to line up and interpret all influences that will in the light of present conditions appear to have some bearing upon the future status of the property he is appraising.

All other things being equal, the appraiser who has assembled the greatest amount of data should make the most accurate estimate. But events may take place overnight that will so influence a property as to render the former estimate preposterous. However, the estimate is not thus rendered unsound if it were a reasonable estimate based upon information available at the time the estimate was made.

### THE PLAN OF OPERATION

We, as appraisers of real estate properties, accord, and rightly so, great weight to past operating experience as a part of the data required in appraising an income property. Past records are of great significance, but it is certainly of equal importance to know the conditions under which such records were made.

The fuel bill in former years with coal at $6.00 per ton would differ today and for the future if coal dropped to $4.00 per ton. The experience, however, that 350 tons of coal were required at so much per ton is a fact of important significance in estimating future operating expense.

A value of any property is predicated upon its "highest and best use." Therefore, in analyzing past records we must be sure whether or not such records resulted under such highest and best use.

Every property should be operated under some definite *plan*. The management's efforts are, or should be, directed toward the adoption of the best and most profitable plan. For example, an apartment house containing a given number and size of apartments and space units may be operated under any one of the following plans:

1. Unfurnished without special service.
2. Furnished without special service.
3. Partly furnished and partly unfurnished without special service.
4. Furnished with partial service, such as maid service, etc.
5. Furnished with virtually full hotel service, even to the extent of dining room accommodations, pick-up of cars, doorman, etc.

The degree of service offered to the tenants can be carried forward step by step until we reach what might parallel the service offered in a strictly commercial hotel. After all, the apartment house and the hotel both offer to the occupants the use of floor space and facilities, together with certain forms of personal service. In the unfurnished apartment the service is of minor significance in the value estimate, whereas in the commercial hotel the service becomes one of the primary factors in the entire enterprise.

There is no definite line of demarcation, except that of good judgment, in properly weighing the plan of operation and the possibilities so indicated. An apartment house may decide to install dining room accommodations. The first step in this would be to lease to outsiders desirable space, perhaps on the first floor, which would be operated then more or less as a concession for the benefit of the tenants, rental being paid for the use of such space. In the simpler cases, such accommodations are more or less in the nature of "tea rooms," wherein kitchen facilities and serving equipment are all installed within the areas set aside for such purposes.

In the hotel, of course, all such service was considered originally, and dining facilities and kitchen and appurtenant equipment of all kinds would have been laid out and installed as a part of the entire plan.

It frequently happens that the plan adopted originally was a proper one under the circumstances prevailing at that time but that the present outlook is different and the plan could be changed to advantage. The potentialities of such a change may or may not have been recognized by the management. In some instances the management is fully aware of the possibilities involved, but perhaps there are financial difficulties that cannot be overcome and the required investment in furnishings and rearrangement is therefore not possible in spite of the benefits to accrue therefrom.

Again, the management may have followed the line of least resistance; especially at the present time when so many apartment houses are in financial difficulties, the line of least resistance is being taken until such time as funds are available and economic conditions are such as to warrant the working out of a definite program.

The fact that the change in plan has not been adopted, even though it may have been recognized as desirable, should not influence the value estimate except in so far as to recognize the cost which would be incurred in making the necessary changes. In other words, the property should be considered in the light of its value not only under competent and informed management but also in view of what a purchaser would be justified in paying for it, assuming that he had the capital to bring it to its highest and best use, that is, to the point of operation under the most feasible plan.

The appraiser's first job is to study the present plan of operation and get the benefit of the management's experience and ideas. His basic questions would run somewhat as follows:

1. What is the basic plan?
2. When was it adopted?
3. Has it been changed? And why? And when?
4. Have actual studies been made covering the potentialities from such change?
5. If not, has the management any idea on this? What are they?
6. What are the possible changes for study?
7. What costs are involved in making such changes?
8. What effect would these have upon operations both as to income, operating expense, maintenance, and all other factors having a bearing upon the value estimate?

It is obvious upon going into this preliminary study that the changes to be considered would be in two parts: first, the operating changes; and, second, the structural changes which would result or be essential to such a plan.

The Institute of Real Estate Management has developed Standard Classifications of Accounts for apartment houses. Let us consider just one phase of this recommended accounting system—the classification of the revenue account:

1. Rental from apartment space.
    - A. Assigned or allocated to space only.
    - B. Assigned or allocated to furnishings investment.
2. Extra service income.

Under such a system, when and as adopted, the task of the appraiser is simplified, since he can determine at least what is past experience on the extra service provided. However, if no extra service has been in effect, he has no past experience of the particular property and must develop independent studies to disclose the highest and best use.

The larger investment properties are a highly specialized operating and appraisal problem. In the smaller apartment houses it is usually almost self-evident what the plan of operation should be. Comparison upon the operating plan may be made with similar enterprises in the immediate neighborhood. In the more important properties, studies in other parts of the city may be essential to an intelligent decision.

It is important not only to decide whether or not to furnish a service but also what amount of service is required. For example, a furnished apartment house may elect to fix a relatively low schedule of rentals and obtain a reasonable return by curtailing maintenance expense, replacement of furnishings, and redecoration costs. Experience may have shown in a certain city that $15.00 per room per annum is a proper budget for decoration, and further that $5.00 is reasonable for the furnishings budget, or a total of $20.00 per room, or say $60.00 per annum for the average three-room apartment.

This set-up is upon the basis of ordinary competitive rentals. Suppose the management decides upon more exclusive operation—puts in a doorman; adds a clerk at the desk; spends fifty per cent more on maintenance and repairs, cleaning, etc.; polishes the brass rails at the front entrance; installs canopy and carpeting for the front entrance, steps, and landings; furnishes door service for parking visitors' and tenants' cars; and increases exclusiveness and rent accordingly.

The management has that option, of course, and if he decides to change, he does so with the expectation that it will pay and that the net income will increase. However, it is obvious that such a plan would not work in a second-class neighborhood any more than a walk-up apartment would pay in a very desirable location.

From one standpoint, the selection of the proper *plan of operation* determines the ability of the management and the worth of managerial service. The failure to have developed the best for any particular property will undoubtedly influence the value estimate, but it should be theoretically recognized only to the extent of the time and cost which would be required to change the *plan* and bring to effective operation. Obviously, the problems involved here are extensive, and the success or failure of any change may require many months to solve in actual experience.

It will no doubt be a "cut and try" matter. For the appraiser to adopt a change in plan for valuation purposes and know he is sound is, of course, impossible in the time at his disposal. All he can hope to do is to classify the services rendered, catalog the possibilities, analyze the past changes, weigh the opinion of present management, and then decide what bearing such factors would have in the meeting of the minds of a purchaser and the owner of the property as of the current date.

If it appears to the purchaser that a change of the *plan of operation* will require a further investment, but that the outlook for increased rentals and/or occupancy appears sufficiently favorable to pay a good return and provide a fund for amortizing such added investment over a relatively short period, and also give him the benefit of increased earnings expectancy, he will be willing to pay more for the property—not to its full, apparent increased earnings capacity but enough more to meet the owner half way—assuming the owner also realizes the possibilities but cannot afford to make the additional investment.

The appraiser's job is to weigh and evaluate such potentialities—not as mathematical certainties but simply as factors for consideration in making his value estimate.

Therefore, in the *preliminary survey,* which should and always does, whether we so designate it or not, precede any intelligent valuation study, the *plan of operation* becomes the basic starting point to any investigation. Many other factors, of course, will affect the reasonableness of the value estimate, but unless the foundation for the appraisal is sound and proper, the result can never be dependable. Thus does the appraiser *write down* what he is trying to do with his problem.

## THE PRACTICAL APPROACH TO THE PROBLEM

How can this be applied in actual, everyday practice? It really isn't difficult nor complicated. As previously outlined, the usual first step is to consult the management upon the various questions suggested. A personal floor-to-floor and room-to-room preliminary inspection brings to the appraiser of experience considerable information.

Perhaps at the start he tabulates nothing in writing. He notes, however, whether the cleaning is carried on in an efficient and orderly manner or if it is of a more or less desultory nature, whether the dinginess of the corridor carpets or the unwashed windows show laxness in cleaning. However, the carpets may show signs of wear in places and still be clean and serviceable. He notes the appearance of plaster surfaces and the freshness or otherwise of painted and varnished woodwork. He opens hall closet and cupboard doors and examines basement areas—the appearance and general degree of cleanliness in such spaces are in one sense a barometer that, to the experienced eye, tells a real story of the character or type of service offered.

A subsequent and more detailed survey of the building and all of its exposed structural and mechanical details will be made to estimate the maintenance requirements and the accrued depreciation, but such a survey should always be made in the light of a fairly well determined idea as to the degree to which the building should be maintained to meet the demands of the tenants under the *plan of operation* that is considered to develop the highest and best use and hence the greatest net return and the greatest value in the property.

We have said that appraising is an observational science. It is difficult and, in fact, impossible to lay down hard and fast rules concerning the detail steps in making such a preliminary survey of the property or reporting the conclusions resulting therefrom. If we decide to record against the item of *cleaning* a condition of "excellent," "good," "fair," "poor," or perhaps "above standard," "standard," or "below standard," we must have a base against which to make such comparisons. This base usually is the average or mode of similar properties operated by competent and experienced management. The appraiser, therefore, must have had wide experience in order to be a proper judge of the matter. Even then he will make mistakes and derive erroneous conclusions. This is inevitable.

Perhaps the best possible attitude to assume in the approach to the appraisal of an important and complex or probably any other property is to consider yourself as proposing to purchase the property. In many respects we can learn a lesson from the layman in this regard.

Let us say a businessman with no knowledge of valuation practice and procedure has some money to invest and is approached by a broker Realtor with an apartment house proposition. Neither of these men is an experienced appraiser; nevertheless their minds will almost inevitably follow along the several leads that the appraiser looks upon as definite, technical procedure. Their conversation might very well run as follows:

*Broker* (*Mr. A.*): I understand you are in the market for a real estate investment, and I have a proposition that's a "Honey"! It's an apartment house and a real buy. The owner is leaving town and wants to clean up all of his local investments in order to raise funds for a new business he is taking over in another city.

*Businessman* (*Mr. B.*): I don't know anything about apartment houses and don't think I'd be interested. Where is it?

*Mr. A.*: I know how you feel. Personally, I seldom recommend apartment houses under present conditions, but this is a "natural." It's practically new—located in an established district on the North Side—surroundings excellent—near the lake; at the price it's nothing less than a "steal."

*Mr. B.*: How big is it? How much money would be involved?

*Mr. A.*: It's a substantial property but not one of those "white elephants" that are now scattered all over the North Side. This was a sound, conservative project at the time it was built and looks even better now in spite of the depression. It contains—let me see—(looks at card) 160 apartments, two, three, and four-room, you know, a few larger; large lot—open court—fireproof—everything modern—the last word—and it can be handled with $100,000—maybe less.

*Mr. B.*: $100,000? Well, that's a lot of money to put into an apartment house under present conditions. What's the financial set-up now?

*Mr. A.*: Well, it cost over half a million in 1928. An insurance company holds the first mortgage. The company's investment and back taxes amount to a little over $250,000, and I understand they would take a new mortgage under a sale of $200,000 or $225,000. The financing costs would be easy.

*Mr. B.*: How much is the property earning?

*Mr. A.*: Well, that's just where the big opportunity comes in. It hasn't made enough to pay taxes and interest for the past several years, so the insurance company is threatening to foreclose, and the owners would lose their equity. The insurance company isn't interested in real estate as an operator and would be satisfied to come out even. A little rehabilitation and a change in operating methods under an experienced manager, and the property would be a gold mine.

*Mr. B.*: I don't follow you.

*Mr. A.*: Well, you see, here's the lowdown on the whole thing. The building was designed to cater to an upper middle class of tenants. The apartments were unfurnished in the main, and no special service of any kind was given to the tenants. The occupancy was pretty good at the start, but when it fell off in 1931 and got worse in 1932 and 1933, the owners couldn't keep it up. The property became rundown—people moved out—and the district changed. However, people are now crying for furnished space in smaller apartments in that neighborhood, and by putting in a few thousand dollars in rehabilitation and furnishing about a third of the apartments, the occupancy could be brought up overnight. Even under present rental levels, which are ridiculously low, I figure it should pay taxes and interest and give you ten per cent or more on your money.

*Mr. B.*: Sounds good—but, of course, I want to know exactly where I'd get off before putting any money into it. Suppose you work up your figures in detail and send them to me. I'll be glad to go over them and consider the matter.

What is involved in this conversation? Nothing more than the first steps in the *preliminary survey*, as it is termed in the appraisal process,—the gathering of the basic data upon which a more detailed investigation will be predicated—type, character, and location of the property, size, investment, capital structure, operating status, and the:

Present Plan of Operation (Present Use)
Proposed Plan of Operation (Highest and Best Use)

The importance of this initial step is obvious if we consider the later procedure in making an estimate of value. The prospective operating statement, which is to set forth the estimate of future operating potentialities, may contain items of expense that had never been incurred in former operations, or it may, on the other hand, eliminate items or greatly reduce or increase expenses of various kinds.

It must here be repeated that the ultimate success of the plan adopted and the proof as to whether it actually results in operating the property for its highest and best use is not an exactly determinable matter at the date of appraisal. The more experienced the appraiser, the more probable that his judgment will be sustained, and yet there are so many factors that are currently unknown and which might nevertheless influence future operations that the most experienced appraiser might be found to have misjudged the situation. He would not have made an error, however, regardless of the final outcome, provided he honestly and intelligently considered every bit of pertinent and available information at the time of the investigation and then arrived at his program and final estimate in the light of such information.

The surgeon may lose a patient and still have exercised the greatest care in making his diagnosis and skill in performing the operation. An autopsy might prove his diagnosis in error, which is almost inevitable in many instances. That surgeon, of course, who appears to sustain the highest ratio of accuracy and skill, i.e., the lowest in mortality, gains the greatest reputation and success in his profession. He must pass through years of trial and error to reach the top—the same is true of any profession—, and the appraiser who deals with property and business health and mortality must cover much the same character of ground as he advances to success in his endeavors.

The fundamental purpose of the American Institute of Real Estate Appraisers is to stimulate appraisal thinking and to elevate its practice and technique. There can never be a time when all appraisers are equal in ability, experience, and judgment. No educational program could be devised which could possibly accomplish such a purpose. However, the general standard of work can be raised for the benefit of all.

There can be no rules laid down, therefore, for laying out the *future plan of operation*. Each problem must be considered independently. But in principle and in actual practice, this preliminary step is essential to sound valuation procedure. In many instances it will be found that there are insufficient data available to indicate any change in the basic plan. The problem may thereby be simplified, but the appraiser nevertheless knows that he has considered such possibilities and has therefore approached his problem in an intelligent manner. He has *written it down*, and below that he has *written down* what on the face of things appears to be the most logical approach to its solution. He has thereby laid the foundation, which "is the important thing—the rest will take care of itself," as the old mathematics teacher advised.

## ILLUSTRATIVE EXAMPLES

### Example No. 1

### *Change from Furnished to Unfurnished Apartments*

To illustrate the practical application of the change in the *plan of operation*, the following hypothetical set-up has been made.

The controlling factors are shown in the first column, and the figures pertinent thereto in the *present plan* and *proposed plan* are carried in the second and third columns.

It will be noted from this hypothetical example that the change in the *operating plan* reflects a net annual gain of $3,120.00, which, if capitalized at eight per cent, results in an added value of $39,000.00. (The example, of course, applies simply to the income capitalization and does not attempt to enter into the actual value studies.)

The present occupancy of seventy-eight per cent (wherein but a few apartments are furnished) might be increased as conditions improve, whereas in the *proposed plan* (with a large percentage of furnished apartments) the transient business would be greater, and the occupancy would, no doubt, be kept primarily at a somewhat lower level. Each situation must be studied upon the conditions surrounding the property and its potentialities. The example simply illustrates the principle involved.

| | | Present Plan | Proposed Plan | |
|---|---|---|---|---|
| Number of Apartments | | 124 | 124 | |
| Furnished | | 12 | 96 | |
| Unfurnished | | 112 | 28 | |
| Average Rental | | | | |
| Furnished | | $60.00 | $60.00 | |
| Unfurnished | | $45.00 | $45.00 | |
| Occupancy | | 78% | 75% | |
| Gross Income—100% | | $69,120.00 | $84,240.00 | |
| Less Estimated Vacancies | | 15,120.00 | 21,240.00 | |
| Effective Income | | $54,000.00 | $63,000.00 | |
| Gain in Income Expectancy | | | $ 9,000 00 | |
| Estimated Cost of Furnishing 84 Additional Apartments at $350.00—$29,400.00 | | | | |
| Return and Carrying Charges on Added Investment | | | | |
| Return | 8% | | | |
| Maintenance | 2% | | | |
| Replacements (Depreciation) | 10% | | | |
| | 20% x $29,400 | | $ 5,880.00 | |
| Net Annual Gain | | | $ 3,120.00 | |
| Capitalized at 8% | | | | $39,000.00 |

### Example No. 2

### *Change from Furnished to Unfurnished Apartments*

A case in actual experience showed the unusual possibility of changing some furnished apartments to unfurnished apartments. In the fall of 1935 an appraisal of an apartment house in Detroit was made for a large realty holding corporation. The structure provided sixty apartments, of which forty-two were furnished. Investigation disclosed that the transient demand for furnished apartments appeared to be moving closer into town; this was due to the general situation in Detroit.

From inspection the furnishings were found to be in a rather poor condition and considerable new expenditure necessary. It developed that the differential between the furnished and unfurnished apartments ranged from $5.00 to $10.00 per month and that most of the vacancies were in the furnished apartments. It was estimated that an expenditure of approximately $200.00 per apartment would be required to place the furnished apartments in a suitable condition to increase the demand and occupancy—such occupancy being less than seventy per cent at the date of the initial inspection.

A conservative estimate was made (using a $10.00 differential between the furnished and unfurnished apartments, which was the maximum and greater than that actually in effect as an average). The following tabulation shows the approximate figures taken from such estimate:

| | Former (Maximum) | Proposed (and adopted) | Gain |
|---|---|---|---|
| 42 Apartments—Furnished (Average about) | $ 50.00 | $ 40.00 | |
| 18 Apartments—Unfurnished | 40.00 | 40.00 | |
| Gross Income at 100% | 33,840.00 | 28,800.00 | |
| Effective Income at | 70%— 23,700.00 | 85%— 24,480.00 | |
| Carrying Charges on New Investment: | | | |
| (42 Apts. at $200.00) 20% x $8400.00 | 1,680.00 | | |
| Comparison | $22,020.00 | $24,480.00 | $ 2,460.00 |
| Capitalized at 8% | | | $30,000.00 |

Within the space of three months after the change in the *operating plan,* the occupancy was brought to eighty-five per cent, and at the time of the last report it was eighty-eight per cent.

Whereas an additional investment of approximately $8,400.00 would have been required had the "furnished" plan been continued, the sale of the furnishings actually netted $3,750.00. This might be considered as an offset during the period required to reach eighty-five per cent occupancy, and it also paid for some redecoration for the new tenants.

The figures shown in the table indicate an increase in the valuation, attributable solely to the change in the *operating plan,* of approximately $30,000. The future looks quite favorable for this property, and incidentally the slowing up of the turnover of tenants is expected to effect a further saving in the cost of tenants' redecoration.

Had the appraiser failed to recognize the potentialities through such a change in plan and adopted the net income potentialities from a continuation of the existing plan, he would have penalized the property and, therefore, have arrived at an unsound valuation.

### Example No. 3

### *Change in Basic Plan for a Commercial Hotel*

A typical case of the elaborate studies which may be required in the valuation of a complex property is illustrated in the recent valuation of a large commercial hotel in Chicago, which was in financial difficulties. The appraisal was required for reorganization purposes under the amendment to the Bankruptcy Act, Section No. 77-B.

Extracts that are pertinent to the development of the *plan* finally adopted in the valuation are herewith presented as taken from the Appraisal Report:

"Briefly, the present status of the hotel and the important factors which are largely controlling in its present value are summarized as follows:

(1)—Under any reasonable outlook for the future in the hotel industry in general and particularly in Chicago, it is apparent that profitable operation of the Blank Hotel, under the present plan, is improbable, at least to the extent that would justify any material investment in the real estate, that is, the land and hotel structure.

(2)—The location of the hotel, while on

Michigan Boulevard, is outside of the 'Loop' and in the opposite direction from the trend of development, which constitutes the greatest single handicap in obtaining a fair proportion of Chicago business, which condition will not be overcome excepting through some basic change in the general development of the future, and which cannot be reasonably contemplated or forecast at the present time.

(3)—The hotel structure constitutes a definite over-improvement and over-investment, thus necessitating fixed charges far in excess of that which might be required if the size were more in line with possible future demands. The appraised investment in the land and building, therefore, has little bearing upon the value of the property and is of use primarily in establishing a base for other essential computations.

(4)—Finally, a basic change in the plan of operation and the conversion of the facilities to meet such change must be adopted if the hotel is to develop an earning power that would justify a valuation at anything more than a purely speculative liquidation price."

"This has resulted in a plan that we feel will develop the highest and best use of the property and offer the best potentialities, and which has, therefore, been adopted for purposes of valuation. The plan contemplates briefly the following:

(1)—The conversion of five upper floors of the hotel into 220 residential suites which would be operated to a large extent independently from the regular hotel enterprise, but which would offer the highest class of service and would be furnished and equipped in keeping with the patronage anticipated—the rental schedule to be sufficiently below the usual rentals for such accommodations to guarantee the bringing up of a reasonable constant occupancy.

(2)—The conversion of five floors of the hotel into larger and more desirable rooms for double occupancy, the purpose being to attract and hold a class of patronage which has not heretofore been available primarily because of the great preponderance of small rooms in the hotel layout.

(3)—The establishing of a new room rate schedule for the 1889 transient rooms remaining after the conversion in order that a properly graded and lower scale of room prices may prevail. The results of this will be to have available a large number of rooms in the $2.50 and the $3.00 class and a substantial number of double rooms in the $5.00 class which has not been practicable under the present layout.

"This plan means in effect the immediate increase of revenues from residential suites through tenancy of a permanent character; together with the establishing of a more favorable position to meet 'Loop' competition in transient rooms by the lowering of rate schedules and the furnishing at the same time of better facilities with at least an equivalent service, thus offsetting to a material extent the disadvantages of location.

"Estimates of income, expense, and net profits from operation have been prepared upon the basis of the conversion, as outlined in the above. These estimates are developed from a consideration of past records and statistics, with due regard to the outlook for the hotel industry in the future. The various studies and computations, with appropriate discussion and explanation, are set forth in the body of the report.

"It is considered that this plan would constitute the highest and best use for the property, and therefore that the fair market value of the property must depend to a controlling degree upon the reasonable expectancy of profitable operation which may be developed thereunder. From the various studies it is estimated:

(1)—That the net profits available for fixed charges and return, after providing for all operating and general expenses, taxes and insurance, maintenance, and periodic building and other replacements (but before amortization of investment in wasting assets), should reasonably approximate $838,000.00 per annum.

(2)—That after deducting from this anticipated annual income a return upon the appraised investment required in hotel furnishings and equipment and working capital, together with a fair compensation to the operating enterprise under the risks to capital involved, there would remain as a return upon the real estate itself (that is, the land, building, and fixed equipment), an annual amount of $398,000.00.

(3)—That the cost of conversion of the building and the refurnishing of the suites and other changes will approximate $890,000.00, exclusive of losses from operation during the period required for conversion, which losses are independently estimated at $250,000.00."

| | EXISTING PLAN (Before Conversion) | | PROPOSED PLAN (After Conversion) | |
|---|---|---|---|---|
| (1) Room Revenue | | | | |
| Present Layout (Unchanged) | $1,308,963 | | $1,143,400 | |
| Converted Rooms | ........ | | 291,267 | |
| Residential Suites | ........ | | 253,440 | |
| Sub-Total | $1,308,963 | | $1,688,107 | |
| Room Expense | 369,829 | | 340,623 | |
| Room Dept. Income | | $ 939,134 | | $1,347,484 |
| (2) Food and Beverage Revenue | $1,243,515 | | $1,603,702 | |
| Food and Beverage Expense | 873,536 | | 1,098,198 | |
| Food and Beverage Dept. Income | | $ 369,979 | | $ 505,504 |
| (3) Minor Depts. Revenue | $ 691,564 | | $ 903,595 | |
| Minor Depts. Expense | 511,328 | | 622,056 | |
| Minor Depts. Income | | $ 180,236 | | $ 281,539 |
| Total Operating Income | | $1,489,349 | | $2,134,527 |
| (4) Deductions | | | | |
| Administration | $ 341,030 | | $ 333,200 | |
| Advertising | 120,000 | | 120,000 | |
| Power, Light, and Heat | 149,600 | | 161,000 | |
| Maintenance and Replacements | 354,598 | | 399,727 | |
| Taxes and Insurance | 283,000 | | 283,000 | |
| Total Deductions | | $1,248,228 | | $1,296,927 |
| (5) Total Net Income | | $ 241,121 | | $ 837,600 |
| (6) Gain in Income Through Conversion | | | | $ 596,479 |
| (7) Estimated Additional Investment Required to Produce Added Income (Cost of Conversion) | | | | |
| Structural | $ 495,000 | | | |
| Furnishings and Equipment | 343,000 | | | |
| Other Expense | 52,000 | | | |
| | $ 890,000 | | | |
| (8) Estimated Additional Carrying Charges on Additional Investment (Return and Depreciation) | | | | |
| 8% x $495,000 | | | $ 39,600 | |
| 15% x $343,000 | | | 51,450 | |
| 10% x $ 52,000 | | | 5,200 | |
| | | | | $ 96,250 |
| (9) Net Income Advantage Through Proposed Plan | | | | $ 500,229 |

The tabulation shown on page 43 has been set up directly from the control sheets in the Appraisal Report and shows in parallel columns the outlook for the hotel if continued along the *existing plan* (that is, before conversion) and under the *proposed plan* (that is, after conversion). In considering this tabulation it should be realized that the accounting for the operation of a commercial hotel differs substantially from that of a typical apartment house. Revenues and expenses are departmentalized, and "Operating Income" is summarized from the departmental studies; thereafter deductions are made for administrative costs and general expenses of various kinds in order to reach the anticipated net income.

From a study of this tabulation, it will be noted that the *proposed plan* (after conversion) indicated a gain in income of over $596,000 per annum and that after allowing for the carrying charges on the additional investment required (an amount of $890,000), the net income advantage anticipated from the adoption of the *proposed plan* approximated $500,000 per annum.

It should be understood, of course, that this $500,000 cannot be necessarily or directly interpreted as a gain which can be capitalized in arriving at additional value. As a matter of fact, the fixed charges on this property were considerably in excess of the net income expectancy of around $241,000 under the continuation of the *existing plan.* Furthermore, under the *proposed plan* the gain of $500,000 would still be insufficient to justify the original investment or the capital structure at the date of appraisal. However, the *proposed plan* added sufficient stability to the enterprise to permit definite reorganization with some prospects of continuing operation for the benefit of the First Mortgage Bondholders.

Since the appraisal was completed and approved by the courts, the program along the lines recommended has been undertaken, and several floors of the hotel have been converted substantially in accordance with the recommendations. The results are favorable, and the income position is being strengthened accordingly.

This serves to illustrate the great responsibility of the appraiser when approaching the valuation of a complex property of this nature. It illustrates to the highest degree the tremendous importance of the *preliminary survey* and the later determination of the highest and best use for the property. Unless the appraisal is made along such lines, it is obvious that any estimate of value would be entirely erroneous. In this particular example, of course, various plans were considered, tested as far as possible, and finally discarded before the most effective program was decided upon.

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# Appraising Typical Business Properties for Loan Purposes

*By* FRED L. CHAPMAN, M.A.I.

An appraiser of business property, and for that matter of any property, must frequently review the fundamentals underlying sound appraisals. An evening spent now and then with some of the older books on appraising and with articles written in the middle twenties by the older men still active in our profession will be found of exceptional value to any man. To these different writers—Hurd, Bernard, Zangerle, Ely, Loeber, Mark Levy, Babcock, Kniskern, McMichael, Hyder, Schmutz, du Bois, and many others—I am indeed grateful for their help; and under the personal guidance for the past fourteen years of a past National Chairman of the old Appraisal Division, Arthur Danenbaum, I have learned much.

What is the first thing you ask a man when he comes to your office and says, "I wish to borrow some money on my store"? Not how much he wants—not who he is—and not what the property earns—but, "Where is your property located?" It is the district, the community in which the store is located, that is the primary factor in determining whether or not you or your client, some bank, insurance company, or individual will make a loan upon this property.

For the purpose of this discussion, I have divided "districts" into three classes:

A. Deteriorating with high land value and low building value.

B. Stable with high land value and high building value.

C. Improving with low land value and a proportionately high building value.

### DETERIORATING DISTRICT—HIGH LAND VALUE AND LOW BUILDING VALUE

In a discussion of loans in a deteriorating district, I assume none would make a loan on business property where the land value was very low due to the fact that the district had apparently no future for any purpose other than a continuance of low rent-paying enterprises. There are many such examples in various cities. There is the small commercial district that has been partly smothered by factory encroachment forcing the original home owners of a better type to other locations. The removal of an industry due to inventions or to exhaustion of its basic materials or competition will cause the same situation—a shifted district.

However, when you have a high land value, even though the buildings may be old and have little value, there is then a very reasonable possibility that capital might be interested in making a loan. The utmost caution must be used. A distant purchaser of loans should avoid mortgages on this class of property. Neither are such loans desirable for local banks nor other institutions, but an individual in the city familiar with conditions and willing to put a small part of his money out at a slightly higher rate of interest might be a fair prospect for such a loan. So would an owner of adjoining property, who could use the mortgaged property should it be acquired under foreclosure.

Now, having decided that a loan might be made to a certain special class of investor, the next question to answer is, "How much shall we loan?" No general rule can possibly be set forth on this type of property. Each piece is a separate problem. Perhaps an example illustrating the several guides that I use and which would seem to minimize a risk of foreclosure would be enlightening.

I was recently requested by the attorneys of the owner of a piece of property in such a district to make an appraisal to ascertain its fair market value as of the present time. While this particular appraisal was not made for the purpose of making a loan, it will with a few changes serve to illustrate the points I have in mind.

The property is located on Hennepin Avenue near Fifth Street in Minneapolis, Minnesota. It is on the second best arterial highway, adjoining the best retail district on the edge of the older office building district. At one time it was next to one of the best corners in Minneapolis. Today the district has moved up the street two blocks, and the center of the best retail district is now three blocks away instead of one.

The property has a frontage of forty-four feet on Hennepin Avenue, forty feet on the alley, and is 157 feet deep. There are three buildings on the property, one without a basement, one with two stories, and one with four stories. The buildings are brick, non-fireproof, with red stone fronts. The upper floors are all in such condition that they are of no value for any purpose whatsoever in this district. The state of repair is such that the cost of rehabilitation would be far greater than would be justified by any rentals that could be secured at this time or that seem reasonably possible of realizing in the future. Therefore, in appraising the buildings the reproduction cost of the upper floors was not considered at all, simply the first floor and basement. The treatment of these upper floors as entirely obsolete illustrates one guide in making this appraisal.

The buildings are occupied by one tenant. He formerly paid $400.00 a month rent, but he is now paying $250.00 and catering to the cheaper meat market trade. Until several years ago one of the very popular department stores was located one block away on First Avenue, North. It has since moved to another location and brings no further trade to this general district.

As to the favorable factors in the district—on the street within one block are the Lumber Exchange, a large, eleven-story, old type office building; the Andrews Hotel, a good, medium-priced house; the West Hotel, a very old structure; the Masonic Temple, an old office building; and the Plymouth Building, a middle-aged office building. All of these buildings are progressively managed, and in so far as the office buildings are concerned, they have a very fair class of tenants, without excessive vacancy. Next to this property is the very large Palace Theater, showing second-run pictures, and a modern, two-story business building, the second floor and part of the main floor space of which is vacant. The theater and this business property have been owned for many years by one of the liquor interests. The property adjoining the appraised location, on the other side, is owned by a brewery. Both owners are very strong financially. The occupancy of the nearby stores consists of several restaurants, bars, two night clubs, a tailor, liquor store, cigar store, and jewelry store.

The rental of the property under appraisal appears to be in line with the other rentals in the neighborhood. That is another guide in making such an appraisal—one should take in a sufficiently extensive section of the general neighborhood and be certain that the rentals under consideration are not in excess of the general run of space in the immediate vicinity. Another guide might be seen in the fact that the office buildings and hotels are so managed as to assure the appraiser that they would continue to form a stable index of the neighborhood for some years to come.

Two very old office buildings, one a block and a half away and the other two blocks and a half, have completely closed their upper floors. If I felt that such a possibility existed in any of the large buildings mentioned here, I would not approve a loan for any amount on the property under consideration.

The usual approach to a final valuation was followed in this case. The building was depreciated as a *one-story* building for its remaining useful life at $4,000. The value of the land was placed at $17,600, or $400 a front foot,—a total reproduction value of $21,600. The annual rental of $3,000, showing a net of $715.80, seemed reasonably assured over a period of perhaps ten years. This was capitalized upon a six per cent basis, giving $5,268.27. The reversionary value of the land at the end of ten years was the present worth of $17,600 deferred ten years, or $10,355.84, a total value in this way of $15,624.12.

You will note that these figures are upon a ten-year basis. I consider it very hazardous for an appraiser to make any estimate of income and values beyond ten years for a property in a neighborhood which has been going backward, even though it seems somewhat stabilized at present values. You will note that the land is considered to be worth as much in ten years as it is today. Due to a great many factors, I did not consider it likely that the land in this location in Minneapolis would be worth any less at the end of that time.

A capitalization rate of six per cent was used because interest rates have dropped a great deal, and, according to most authorities, they may continue upon this lower basis for some years to come. Money is plentiful, and the Government seems determined to keep interest rates down, not only for its own purposes but for the public in general. A few years ago eight per cent was considered a reasonable or favorable capitalization rate on many residential and store buildings. At that time Government bonds paid nearly four per cent—today they pay only slightly more than two per cent; steel company bonds paid about five per cent—today, about three and one-half per cent; municipal bonds, five per cent—today, two and one-quarter per cent; finance companies, about five per cent—today, two and one-half per cent; and formerly United States certificates of indebtedness, which ran from ninety days to a year in maturity, paid 2.87 per cent—today issues of these maturities pay no yield whatsoever and, in fact, are sold at a premium because they carry a privilege to subscribe to future issues of Government bonds of around two to two and one-half per cent. Apparently, with these low rates, a six per cent capitalization rate is very fair.

With respect to the value assigned by the local assessor, I should like to call your attention to a case which has just come out of the Minnesota Supreme Court, October 28, 1936, the *State of Minnesota vs. The Penn Mutual Life Insurance Company*, reported on page 37, Volume 269, of the N. W. Reporter. This case was a tax proceeding, and the point at issue was the valuation of an old piece of property in what might be termed the "Bowery" district of Duluth, Minnesota, which the insurance company had acquired under foreclosure of a mortgage. The Court said, "Where there had been no actual sales for a long period of time there is no way of determining values except by the judgment and opinion of men acquainted with the lands, the adaptability for use, and the circumstances of the surrounding community. The trial court could also take into account the qualification of the witnesses and their attitude toward the litigants." The Court further said, "Income is a large factor in arriving at a sales value of property. It is not the sole criterion." In Minnesota, property must be assessed at its market or sales value as distinguished from its cost price or intrinsic value.

The assessor's value for 1936 for the property under discussion was $44,840, designated under Minnesota statutes as "full and true value." Ten years ago the figure was $144,100, representing, therefore, a very drastic cut, which was one indication of the way the district had deteriorated. The only sale in the block covered this particular property, which was sold ten years ago (when the assessor's figure was $144,100) for $65,000. This was a time payment sale with a down payment of a mortgage on some vacant lots. The purchaser has since let the property go back to the owner.

We thus have a reproduction cost of $21,600, a capitalized value of $15,624.12, and the assessor's valuation of $44,840. I placed a fair value on the property as of the date of my appraisal of $20,000, even though the capitalized value was lower. As to the amount of a loan, I would recommend but $5,000, and that only with a special class of investor, as I mentioned before, and with a reduction of at least $500 each year. In other words, the net income of $715.80 would pay up the loan and interest before the end of ten years. And that is the only reasonably safe way that a loan can be made on such a property in such a district.

Herein you might find another guide, that the *net income* on the property under appraisal *must be sufficient to liquidate the loan* within the length of time that you feel certain that such income could be maintained—in this case, ten years.

Briefly summarizing this part of the discussion, remember, first, that loans on this type of property should not be made by most loaning institutions. This is significant since there are individuals who should be interested in such loans; as long as this is true, there is a possibility of profit for the mortgage man, and after all we are primarily concerned in how we can make profits from our business operations. In the second place, restrict the amount of the loan to the net income available to repay the loan within a reasonable length of time. If you are not certain that this net income will last, do not make the loan. Third, the land value should be high in proportion to the building value, and, finally, if in doubt, *don't*.

The above discussion has had in mind that district where business has been leaving, but with a high land value even though a decreasing one. We have a similar district that comes under this classification where the buildings, many of them of the commercial type, are old, and the general district is going backward, but which district does appear to be in the line of greater ultimate development with a very reasonable possibility of enhancement in value at sometime in the future. On the face of it, the risk on a loan on business property in such a location would seem to be less, but with our cities facing a population saturation point with a very marked movement of population to suburban developments, and with the country as a whole in line for a maximum population the next thirty to fifty years, I can see no reason why the same general rules should not apply.

An appraiser will have to be particularly alert in such a neighborhood in ascertaining true land values, because here he meets the optimism of a possible future enhancement in value.

### STABILIZED DISTRICT—HIGH LAND VALUE AND HIGH BUILDING VALUE

Under this classification comes the central business section with its retail and office building district fairly well concentrated and established. We can also include those smaller outlying business districts which, because of transportation and type of population nearby or for some special reason not subject to immediate change, have become stabilized as to values and as to the volume of business likely to be available to the merchants. Loans made in these districts are subject to the keenest competition, and an appraiser must keep his wits about him and not be swayed by any pressure put upon him consciously or unconsciously by some enthusiast.

This discussion does not contemplate large office buildings nor central business properties. However, an appraiser follows no different methods in such appraisals. He must consider very carefully the entire tributary trade district which may extend into one or more adjoining states; he must weigh political and economic factors to an even greater degree than in neighborhood properties, because in the central district he is dealing in large amounts where a slight error may mean many hundreds or even thousands of dollars.

Next to choice residential loans there is no better investment for the distant investor than loans on typical business properties in the smaller outlying but stabilized business districts. My discussion is confined to appraisals in such districts.

What must an appraiser look for in ascertaining whether or not a district is stabilized? First, of course, there is the question of being certain that the residential district surrounding the business location has become fairly well stabilized. He should be sure that the people residing in the district are of much the same income and social strata, that transportation facilities are sufficient for such a group, and that the neighborhood is fairly well built up and not too old, and he should be reasonably certain that the neighborhood can maintain its present status for some time to come in competition with similar neighborhoods or newer ones competing for the people residing in this particular district.

Having satisfied himself that the residential district is stabilized, the appraiser can then move to a consideration of the problems confronting him with regard to the particular business property he is about to appraise. Here again, the first consideration is of the buying habits and possible buying power of the people resident in the adjoining neighborhoods. If they are the laboring or middle classes, it is reasonably certain, provided the stores are clean, well arranged, and meeting competition, that the people will trade with their local stores. In the higher income group, it may be found that a considerable portion of buying is done elsewhere in more expensive and more exclusive stores. Of course, a neighborhood can be made to appeal to these people too, provided there is a sufficient number of them to warrant such a store.

Another important factor, of course, is transportation. There has been agreement for many years that the best outlying business sections are those built up around street car transfer corners. Now, of course, the automobile is an important factor in transportation, and accessibility to or locations on arterial highways may help to stabilize a business community. I think it has been found usually that an excessive amount of through motor traffic has been a detriment to a piece of business property rather than an asset.

A third important factor is that of competition with adjoining properties—or putting it in another way—is this particular location overbuilt with stores? If not, do the zoning ordinances afford ample protection? In the years past it has been the practice in subdividing to set aside far too many lots for business purposes. The appraiser must always keep this in mind in any location to be sure that there is not a surplus of vacant lots available for further business development.

What type of tenants is occupying the property under appraisal and adjoining business locations? Are they progressive, are they clean, and, especially, are they in that class that enjoys a low percentage of mortality as to failures and bankruptcies? We all know that there are far less failures among drug stores than among restaurants. Other desirable tenants showing low records of mortality are hardware stores, department stores, furniture stores, and drygoods stores. Stores with slightly higher mortality are general stores, meat markets, grocery stores, garages, and then restaurants.

A very interesting factor in such appraisal work is the consideration of whether or not there is a key tenant in your particular business community who is the primary factor in making that community an important and at the present moment an apparently stabilized location. Such a tenant may make or break a particular location, and if an appraiser feels that this is an important factor, he should then check very closely into the stability of the key tenant and endeavor if possible to satisfy himself as to the continuation in business of this tenant in that location.

It frequently happens that such neighborhood business locations have grown to be so large and so successful that the key tenant is no longer a vital factor in stabilization. In the smaller towns of one or two industries, the appraiser of a business property has a very difficult task, since the removal of a key industry in such a town means almost economic death and consequently a drastic reduction in property values and attendant difficulties for any loans that have been made.

This, in a rather general way, covers the important matters that an appraiser must consider in determining whether or not a business location is stabilized. Having come to a conclusion that will assure him that the loan is worthy of further consideration in this district, the next problem is that of the property itself.

From a physical standpoint, of course, its age, cost, and general architectural style should be in keeping with the general neighborhood. If the building is more extravagant or newer than the others in the neighborhood, a larger measure of economic obsolescence may have to be considered. Secondly, in regard to the size, layout, and general arrangement of the stores—are they adaptable to the usual businesses that can profitably operate in that neighborhood? Finally, and most important, are the rents in keeping with the level of rents in this location and the volume of business reasonably available?

Many appraisers are satisfied with solving this problem upon a comparative basis with rentals in the neighborhood, giving consideration, of course, to those cases where leases are excessive or rentals are insufficient, but this should be strengthened by a check on the volume of business which the tenants have been doing and which they feel that they may do.

Rent percentage tables vary from time to time, but our national magazines are continually submitting information on this point which can be used as a guide by the appraiser. There are occasions where a traffic count will be found necessary. In the larger properties the matter of management, whether it is efficient and capable or whether it is indifferently exercised or incompetent, and hence inefficient, must be weighed by the appraiser. The renting of properties is a business in itself and while I have no figures on the mortality for such business, there are those who have not known enough about it and have ceased to exist. *Management is important.*

An appraiser should endeavor to secure opinions from the adjoining property owners as to the valuations they place upon their properties. These may indicate a trend. However, most owners are naturally more optimistic on their own values unless they may have reason to expect a lower opinion, such as for local assessment. For this reason an owner's opinion should not be given very much weight. I remember a case concerning a property we appraised when I attended the Appraisal Courses of the Institute in Chicago a year ago. The property under consideration was occupied by a chain store concern under a long term lease at a very fine rental. There were some twelve of us in the group appraising the property, and there was considerable variance among us at first as to the front foot land value. It was my good fortune from an educational standpoint to make a contact with the owner of an adjoining property, whose ideas of value agreed with my own; and, as you know, whenever anyone agrees with you, you think they know their business. I brought this information back to our group, much to the chagrin of some of the members. One of the group, however, contacted a local M. A. I. familiar with the situation, who advised him that the man I had interviewed had some connection with the tax assessor, that he had no intention whatsoever of selling his own property, and that he was very much interested in getting his tax value reduced—which again, of course, proves the point that not a great deal of weight should be given to owners' opinions.

There is also, of course, a question as to how many stores a particular type of buying neighborhood can support. In this country some fair or average population relationships have been developed. A few examples are: variety stores, 5c to $1.00, one to each 10,000 population; jewelry stores, 10,000; shoe stores, 6,800; men's stores, 6,000; hardware stores, 4,500; fuel merchants, 3,500; meat markets, 3,000; drug stores, 2,200; general stores with food, 1,800; garages, 1,800; restaurants, 800; groceries with meats, 750; groceries alone, 650; filling stations, 640. These are average figures for the entire United States, and it would be well to check with the local chamber of commerce for average figures in any particular city.

A typical outlying business property usually consists of stores on the first floor and apartments on the second and third floors. Checking over rental figures, it seems to me that apartments above are of very little value to the business on the first floor, and because of the lower rents obtained, they quite frequently add but little value over that of the stores alone. When setting up your value upon a reproduction basis, this possibility of lowered utility should be carefully considered. Frequently, the apartments are partly obsolete the minute they are completed, due to the commercial setting below and surrounding them. In some instances, of course, the availability of apartments may help in obtaining satisfactory and permanent store tenants.

Offices on the second floor seem to fare slightly better due to a smaller cost for upkeep. From here on the approach is the same as for any other property—that of securing all the data possible, listing such information, giving it the proper weight, and then proceeding to set it out, showing the owner's valuation, the assessor's valuation and trend, the reproduction valuation, and the capitalized income value and comparative value. After setting up these five figures and giving them such weight as is felt desirable under the circumstances of the particular property, the appraiser is then ready to set his final value estimate on the property for mortgage loan purposes and to make a recommendation as to the amount of the loan. This matter of recommending the amount of the loan is not strictly an appraiser's function, yet in many loaning concerns the appraiser's opinion and recommendation are controlling factors in the amount of money loaned upon a piece of property. I believe in any instance that his opinion is valuable and should be given some weight, because he is more thoroughly familiar with all of the facts, the circumstances, and the conditions surrounding the property than anyone else.

### IMPROVING DISTRICT—LOW LAND VALUE AND A PROPORTIONATELY HIGH BUILDING VALUE

Such a district is generally one which is not completely built up, and for the purpose of this discussion one of the newer districts will be considered. Here, in every instance, I believe, the appraiser will find that land values are rather low, due, first, to the newness of the neighborhood and, second, to the limited population in the immediate buying neighborhood. Loans in such a district must be made with considerable caution. We have never looked upon them favorably in my own organization, and yet applications for this type of loan appear more frequently than on other types of business property.

The problems confronting an appraiser of such type of property are the same as those presented in the district just discussed, plus a further very important question of determining whether or not the neighborhood is really going to improve. Unless the neighborhood does improve, a loan for a fair amount on such business property may turn out to be a liability. Therefore, what factors must the appraiser look for and consider in determining whether or not the neighborhood will improve? I think that the most important factor in this connection is the class and quality of transportation available.

Should the district be one which is catering to the lower income families, street car and bus transportation must be frequent and cheap. In the higher income brackets, automobile transportation over good highways readily accessible to the district, with fair street car and bus transportation, may be satisfactory.

Perhaps next in importance is the direction of the growth of the city. Is it in the direction of this district, and will it, considering present natural and artificial barriers, continue in this direction? Other matters to which the appraiser should give thought are the class of people living in the district, the probable drawing power as affecting the possibility of securing additional residents from competing or older districts, and the aggressiveness and financial stability of the subdividers backing a newer district; also, are the surrounding homes well built regardless of their price classification, or are they of the hurry-up, money-mad, speculative builder type, and, finally, is the district properly zoned under a good zoning ordinance as to residential development and particularly as to the number of lots available for business purposes?

Altogether too often in the past, subdividers have plotted more business lots than could possibly be used in the development. Considerable variation will be found in the various approaches that the appraiser makes in arriving at a final value estimate. Owners' opinions of values in such a district are usually high. The assessor's values are usually somewhat high considering the rents being paid. This is especially true if the development has slowed up and the district is making little headway. The income capitalization valuation may be found low and yet must be given a very decided substantial and favorable consideration. Reproduction value offers no more than the usual problems, which are perhaps simplified to some extent as the buildings are usually quite new. Comparative sales values are likely to be found high, because there seems to be more speculation (beware of it) in the newer, more modest-priced business property than in the other types considered in this discussion. Here, indeed, in such a district must the appraiser use all of his talents and energy in securing every fact possible in arriving at a final value estimate, for in this district he has very little benefit of the past to guide him.

In both deteriorating and stable districts there is a considerable record of past performance which indicates definite trends in the neighborhood, the immediate district, and in the property itself, but in the newer district the appraiser must deal almost entirely with the present and the future. Many loaning institutions should avoid these loans.

## CONCLUSION

In conclusion, I believe that no appraiser can be a competent judge of the value of business properties until he has completely mastered the valuation of residential property, because residential districts make or break a business district, and no business property can be properly appraised until the appraiser has satisfactorily determined the stability of the adjoining residential districts, which is exactly the thing he must do in appraising any piece of residential property.

I have read with considerable pleasure and interest Part II of the Underwriting Manual, revised to April 1, 1936, issued by the Federal Housing Administration. Its system of rating will be found of considerable interest to any appraiser of business property. Section 1, covering the rating of property, and Section 2, covering the rating of locations, are well worth considerable study. A similar rating system for business property might be quite helpful.[1]

I have endeavored to approach this discussion from a slightly different angle so that I might more clearly stress the vital importance of correctly determining whether or not the district justifies the consideration of a typical business property for loan purposes. The appraiser's investigation and report should be in such scope and detail as to be of material assistance to such determination.

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[1] See article "A New Approach to the Solution of the Appraisal Problem," by Frederick M. Babcock, in this issue.—Ed.

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# A New Approach to the Solution of the Appraisal Problem

### By FREDERICK M. BABCOCK, M.A.I.

THE rapid growth of interest in the problem of appraisal is evidenced by the increase in the numbers of individuals — Realtors, engineers, attorneys, mortgage lenders, and others—who have substituted for casual awareness of appraisals a most intensive attention and study of all aspects of the valuation problem.

Appraisal thought has not as yet crystallized, and at present we view the spectacle of numerous tentative forays of a variety of thinkers into explorations. While we suffer from an inability to sort readily the wheat from the chaff, we all feel that there is taking place a marked degree of advancement, and we are certain that the sorting process is about to begin.

*Engineering Valuation,* by Marston and Agg, Professor Bonbright's work on the *Valuation of Property,* and other new literature, much of it in the *Journal of the American Institute of Real Estate Appraisers,* give evidence that critical review of methods and urgent attempts at reconciliations of differing techniques are commencing. At some later time, we may anticipate the resolution of thought into reasonably uniform moulds.

The appraisal problem still requires solution. I should like to suggest certain new approaches which may assist in leading us to a solution of it.

## WHAT IS THE APPRAISAL PROBLEM?

The following is quoted from a source[1] with which most of you are familiar:

> "In the development of valuation methods cognizance must be taken of the purposes for which valuations are required. The methods must serve the purposes. Valuation is never an end in itself. It produces information or an estimate which (1) assists in the making of a decision with respect to some contemplated program of action, negotiation, or policy; or (2) determines the basis for some line of action already agreed upon or established, but in which the transfer of money or credit is contingent, for the amount at least, upon values not as yet established or agreed upon. Thus valuations in connection with sales, loans, or promotion serve the first group of purposes. They assist the prospective buyer in determining what price he is warranted in offering. They give the loan agent part of the material information he requires before lending money. They acquaint the promoting syndicate with some facts indicating the extent to which the contemplated project may be considered to be a sound venture. Valuations made in connection with condemnation proceedings, damage suits, or taxation serve the second group of purposes. For example, they determine the price which the municipality will pay the individual owner of condemned property. The occurrence of the sale is not contingent upon the valuation, but the price is. Again, the assessor's appraisal determines the amount of the taxes which an owner shall pay. The payment of the tax is not dependent upon the valuation, but the amount of the tax is based upon the appraisal."

The purposes for which valuations are used constitute the appraisal problem. In most instances the problem extends beyond the mere determination of an estimate of value. It must embrace the examination of proposed business or governmental transactions from all the angles which enter into the rendering of final decisions. To me this indicates that a solution of the appraisal problem necessarily requires us to return to a reexamination of the purposes of valuation rather than to concentrate solely upon the devices we use to determine estimates of value.

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(1) *The Valuation of Real Estate,* by Frederick M. Babcock. McGraw-Hill Book Company, Inc., New York, 1932, p. 159.

### SOLUTION OF THE APPRAISAL PROBLEM

The solution of the appraisal problem always includes a careful determination of the value of the property. In some cases the solution of necessity includes the making of several value estimates. Quoting again[2]:

> "It is disclosed that the purposes of valuation can very well require one estimate of value for one purpose and another for some other purpose. If the purpose of valuation is the setting of a price for sale purposes, there is the presupposition of the most typical purchaser in the market and all the considerations entering into the valuation will reflect this fact. But if the purpose of the valuation is the determination of the price which some particular prospective buyer is justified in paying, the valuation may result in a different estimate, i. e., the same properties have different values to different owners depending upon the uses to which they contemplate putting the properties."

But the point I wish to emphasize is that the determination of one or more defined and qualified estimates of value does not, by itself, solve the appraisal problem which is usually presented. There are other basically important factors which require technical analysis and formal examination before the appraisal problem is solved. There must be facts and opinions expressed in connection with matters which have nothing to do with the estimate of value. We have been inclined to center our efforts on the valuation and virtually to ignore the other factors.

### THE OTHER FACTORS

The other factors are usually significant ratios. They are relationships which, when expressed as fractions or ratios, round out the valuation and describe its qualitative characteristics; in addition, they go far beyond the appraisal itself and provide further bases for the making of decisions on the matters which originally made appraisal necessary.

Perhaps a few illustrations will help make clear just what I mean. First, consider the appraisal problem presented when a group wishes to determine whether or not a proposed new building project is a sound deal. They will determine an estimate of the value of the project upon completion. They will also determine the total costs to be met up to the time of completion. Then they must determine the ratio between the cost and the value. That ratio indicates whether the deal is sound. If the cost exceeds the value, the project is unsound. If the value exceeds the cost, the project is sound. Furthermore, the extent to which the value exceeds the cost is a measure of the degree to which the project has strength and merit. Of course, the presence of positive improved value in large amounts cannot exist except in those instances where there is a monopolistic situation which prevents competitive leveling of values.

Take another common case—the problem usually presented when public authority condemns part of a private property for public use. The extent of the damage is indicated by before and after appraisals, and the ratio between the two appraisals is an important factor in deciding the case.

Then we have another illustration in the field of mortgage lending. We cannot rely solely upon the ratio of the principal amount of the loan to the capital value of the property. We wish to know other ratios, among which is the ratio which the debt service on the contemplated loan bears to the probable future net earning capacity of the property. Personally, I consider this ratio equally as significant as the loan-value ratio. As you will readily observe, the ratio does not even involve the value of the property and aptly illus-

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(2) *The Valuation of Real Estate*, by Frederick M. Babcock, McGraw-Hill Book Company, Inc., New York, 1932, pp. 160-161.

trates the contention that the appraisal problem is not completely solvéd by appraisal alone.

There are many other illustrations, of course, but these will serve to indicate the general nature of the new approaches to the solution of the appraisal problem. A more detailed description of the requirements of the new approach can be brought out if we confine the discussions to the appraisal problem presented by mortgage lending.

### MORTGAGE LENDING PROBLEM

In mortgage lending it is necessary to examine proffered loans and to make a selection of mortgages. The technical requirements of the appraisal problem presented by mortgage lending are not met by the determination of the value of the property which secures the loans. Before a reliable decision may be made there must be an examination of a variety of factors, most of which are best analyzed by determining certain ratios.

In patterning a loan transaction properly it is important to know the degrees, in terms of probability, to which the property will be durable as a physical structure, serve from a functional use standpoint, tend to remain valuable as a stable investment and resist changes in environmental conditions of the location and adverse encroachments, remain marketable and enjoy consideration by large numbers of potential purchasers, and appeal to the present borrower. It may be said that all of these factors are embraced by and reflected in the valuation itself. True, but to what avail? In different cases, the many factors briefly epitomized above may combine in many ways and still produce perfectly correct valuations which happen to be similar in amount. But the mortgages supportable in the different cases may be quite different because of numerous direct risk factors.

Valuation and examination of the loan-value ratio explores that portion of the mortgage risk resulting from the presence of an equity. It cannot, however, supply the answers needed to determine other factors of mortgage risk. It is necessary to require appraisers to provide all the ratios and other bases of technical judgment needed to measure mortgage risk. The lender wants to know whether to accept or reject the loan, or he wants to know how to pattern the proposed loan transaction so that the minimum degree of mortgage risk remains. It is not sufficient to tell him that a $60,000 loan is sixty per cent of a $100,000 appraisal. We must also tell him that, in our best judgment, the loan should be amortized in a particular way over a particular period of time, that the maximum interest rate supportable is such and such, and that certain provisions in the loan transaction are necessary or desirable in order to make the particular loan reasonably safe until final repayment occurs.

We must not presume that the patterning of loans follows a standardized scheme. Safety can be built into loans only by the application of general principles to the exigencies of particular cases. The estimate of capital value—the ordinary appraisal—is fundamental in the solution of the problem but cannot, by itself, supply an adequate and complete solution.

What does this mean in the field of appraisal techniques? Doesn't it appear that we are drawn inevitably to the direct examination of mortgage risk as such and that we are required to use a risk rating procedure? A risk rating system seems to be the logical solution of the appraisal problem presented by mortgage lending requirements.

### Risk Rating System

Valuation and risk rating should be carefully distinguished and placed in our minds in proper relation one to the other. Valuation is the determination of estimates of the values of properties. Risk rating is the process of thoroughly analyzing and measuring major factors of risk undertaken in the making of mortgage loans. It is apparent that risk rating is the broader of the two and that it includes valuation. The appraisal of property thus becomes a subordinate factor in the larger process. This in no way minimizes the importance of appraisal in mortgage lending; it simply places appraisal in its proper relationship in the general process of selecting mortgages for investment.

At present we have available, in specific and detailed form, a risk rating system for use in connection with mortgages secured by dwelling properties. This system is the one prescribed in the *Underwriting Manual* of the Federal Housing Administration. It has been in use by the Administration and others for two years and is the basis of the methods used to determine the eligibility of small dwelling mortgages for mortgage insurance under the provisions of Title II of the National Housing Act.

We do not have available at the present time any specific system of risk rating applicable to mortgages secured by income-producing properties. We need such a system, and an important step in the advancement of the valuation art will have been taken when such a system is available.

Perhaps a word of caution is necessary at this point. The desire to contribute such a system may result in Sunday afternoon efforts on the part of some of those concerned with this problem. It is no job for amateurs or part-time professionals. Remember that the introduction of a risk rating system can have no justification unless the answers are based upon uniform standards and are accepted and recognized by everyone. This cannot be a pet system of some one man. It is my opinion that the development of a risk rating system applicable to mortgages on income properties will have to be the work of a national group of mortgage lenders or of a governmental agency. The standards of measurement must have universal recognition and application.

We who are members of the American Institute of Real Estate Appraisers will have to draw upon our ingenuity and both as individuals and as an organization will make many contributions to the technique. It behooves us to be ready when the time comes, and the first step is the crystallization of our present techniques by means of the sorting process I have mentioned. There must be no vagueness in our minds with respect to ordinary appraisal procedures.

When we do have a risk rating system with which to measure the mortgage risk in loans on income-producing properties, it will have, I believe, certain definite characteristics. The analysis will be centered around a qualitative examination of the potential earning capacity of each property. The nature and certainty of the income will be subjected to careful scrutiny. We will investigate the degree of certainty with which the prediction of future returns can be made in the particular case. The stability of the use of the property and the quality and reliability of the appraisal data will enter into this investigation.

There will be an examination and measurement, upon a relative basis, of the stability of future returns. This will require consideration of the normal fluctuations of gross revenues in comparable properties, analysis of the probabilities and expectancies indicated by tenant leases now in force, the likelihood of securing renewals, and, most important, the computation and interpretation of the probable expense ratio. These items and many others which have a bearing upon the certainty, probable and possible fluctuation and duration of the net earning expectancy will require examination leading toward a final measurement of the risk inherent in the predicted stream of future net returns.

You are aware that the rating of earning expectancy in this manner is not entirely dissimilar to the line of reasoning through which we go when we are selecting capitalization rates in the valuation of properties by the income method. In both problems, relative degrees of risk constitute the objective sought.

Probably the most heavily weighted factor in the system will be the expense ratio. The expense ratio is the percentage which the estimated total operating expenses and taxes, before allowance for depreciation, bear to the total effective gross revenue expectancy after allowance for vacancies and contingencies. Obviously, the higher the average expense ratio, the greater will be the probable fluctuations in net earnings through the years. This ratio is of major significance in rating mortgage risk.

The system will also embrace a rating of the junior interests and equity owners, determined in terms of their relationship to the management and ownership requirements of the property and the provisions included in the mortgage transaction. The impact of management upon value and mortgage security is frequently underestimated. Competent management, responsible ownership, and adequate working capital are practical necessities in the production of incomes in all important classes of commercial real estate. The mortgage risk rating system will have to reflect the effects of management and ownership upon the safety of contemplated mortgage investments, and the rating process will investigate the extent to which equity ownership may be expected to be attractive and so motivate owners that they will have an interest in providing continuous good management.

Finally, there will be an examination of the interaction between the major categories of risk. This, in turn, will result in a patterning of the loan to determine alternative loan structures matching the predetermined risk characteristics of the real estate security and the borrowers. Valuation will play its important role in this drama, and the ratio of the loan to the value will remain a major consideration of the mortgage lender.

### SIGNIFICANCE OF THE RATING PRINCIPLE

We must be careful not to underestimate the significance of the risk rating principle. It is a hedge against mistakes resulting from changes in price levels. It multiplies the chances of selecting stronger loans. Different loan deals are analyzed upon a comparable basis, and there is a strong presumption that the decisions of lenders will be more uniform and less competitive except in so far as the general lending policies of lenders differ. Mortgages will be described in terms of degrees of risk rather than simply as good and bad loans.

For appraisers, the risk rating system provides a new set of devices by means of which to make the many comparisons required in all sound valuation methods.

The risk rating principle focuses attention on risk. It will result in the exercise of greater caution by the less skillful lenders. It will cause lenders to act with greater dispatch and certainty and on better terms where good loans are involved. It will cause them to be more definite and positive in the rejection of poor loans. This, in turn, should tend to produce better real estate in America.

### SUMMARY

Now to summarize: The three principal points I have tried to bring out are these: first, that accurate valuation, important, necessary, and desirable as it is, is by no means a complete solution of the appraisal problem; second, that the problems for which valuations are required can be solved by analytical means, usually by the careful determination of a number of significant ratios; third, that the risk rating system applicable to the examination of mortgages is a good example of the new approach to a solution of the appraisal problem.

* * *

# The Appraiser's Responsibility under H.O.L.C. Property Appraisal Report Form

*By* Leonard Downie, M.A.I.

An appraiser, in accepting an engagement, becomes responsible to his client for the solution of an important and frequently a difficult problem, that of estimating an unknown quantity—"value"—and relating it directly and positively to a known—"real estate"—and justifying his estimate by sufficient research, logic, and conclusive evidence to a point which is beyond a reasonable doubt.

A brief statement with the result of some unknown system of calculation signed in the presence of witnesses and affixed with a prominently displayed "Gold Seal" no longer constitutes an "appraisal." The figures in such a statement rely solely upon the reputation of the valuator, and the client may well be puzzled as to what he received from the appraiser and just what he is to get from the report and the fee paid, in the form of amenities or benefits through purchase, sale, investment, security for a loan, or any other purpose for which the appraisal might be used.

A client is entitled to have a true and complete picture of his property and the conditions surrounding it in the appraisal report. Therefore, an appraiser has a dual responsibility. He must obtain sufficient information to substantiate his own opinions and judgment, and he must record his findings in a manner and form that will present a clear outline of his reasoning and also support the ultimate dollar value of his certified conclusions.

Thus, the demand for informative data has been the motivating impulse which has brought about the evolution of the present or modern appraisal forms, records, and reports from the old order of "Gold Seal" certificates.

These forms of the more modern design and arrangement are drawn for the definite purpose of aiding both appraiser and client.

An example of such a form is the Home Owners' Loan Corporation Property Appraisal Report Form (see pages 63, 64, 65, and 66), which was drafted for use in completing an inventory and appraisal of residential and small business properties acquired by the Corporation.

Each appraisal problem always presents many complex avenues of approach before a correct value can be ascribed to any property. There are many environing influences that must be brought to light and carefully analyzed before the final figure representing the value of a property can be placed on an appraisal report.

The items within the heading and throughout the entire body of the appraisal form to the final certification, including plot plans, floor plans, and neighborhood survey, are placed in such position as to portray a vivid word picture to the appraiser when he is engaged in the completion of the detail. The items constitute pertinent interrogations concerning vital points or factors bearing upon the problem and influencing the final estimate of value. They imply or demand some answer or statement or draw attention to some detail which may have been otherwise overlooked; they thus serve as a guide to the competent appraiser and afford him a system of orderly review of data as he analyzed the situation, as well as a proper place to record his conclusions.

Reviewers, officers of a corporation, attorneys, or the clients themselves are, through the medium of a well-designed form properly completed, given a vivid description of the major influences upon which the value of the subject property is supported; they can intelligently review the report and correctly analyze the methods used even though they have never seen the property.

### CITY, NEIGHBORHOOD, BUILDING DATA

The form provides for city data on population and trends, followed by the more important detail of neighborhood influences. The block then is brought into prominence and finally the details of the structure itself. The exterior condition is recorded, and the major details of construction are noted. Next, the interior is described, then the formation of the estimated reproduction cost figures which are to appear in detail. The over-all approximate amount of expense is estimated to place the property in a saleable or rentable condition. These items are invaluable in establishing the basic calculation of the functional, physical, and economic depreciation, equations, or percentages.

### CAPITALIZATION ANALYSIS

These data are followed by the actual calculation recorded in convenient form with totals so indicated as to provide an accurate source of information for future reference by the appraiser and the client.

Since the value of real estate must be analyzed from more than one point of view in order to justify and compare calculations and satisfy different valuation requirements, provision is made whereby proper capitalization rates adopted in measuring future benefits may be applied to residential properties. The capitalization of rental income may not be of direct application in many instances, but it is significant, whether it be to the prospective purchaser, owner, or to a corporation owning a large number of residential properties. Certainly, an important factor in the program of owning property is brought to light in the element of expense attached to ownership.

### SUMMARY AND MARKET ANALYSIS

The form provides further for a complete analysis of the general conditions surrounding the property as reduced to dollar relationships. These are disclosed as current market price and current rental, which facts or estimates are of interest and significance to a purchaser. They should be included by the valuator particularly if his valuation or estimate of market value is based upon an expected upward trend in the immediate future, or projected to some more or less indefinite date in the coming years. Marketability, together with its rating, is vastly more important than the indicating figures appear and should be given careful consideration in its establishment and review.

With these several variations of value reported and the reasons for them given, recommendations are in order, and at this point the appraiser can present the conclusions he believes most applicable to the property and recommend its disposition accordingly, but leaving other data in plain view for the client to accept or reject.

Much of the recent development of appraisal forms has been at the hands of the large governmental loaning agencies, but many contributions have come from those interested in or using appraisals or through the reviewers who, operating from a centralized base, found insufficient data in a report to comprehend or justify the values contained within it.

### NEIGHBORHOOD SURVEYS, PLOT PLANS, ETC.

Floor plans and plot plans, neighborhood surveys and photographs may not have been regularly required in the past, but they are now becoming recognized as essential to a complete appraisal report. The most generally accepted basis of appraising residential properties is by the application of the comparative analysis method, and ample provision is made for the reporting of such data under the heading "Neighborhood Survey," on page four of the form.

Supporting data, comparisons, and actual digests of recent transactions become of major value to the party unfamiliar with the local conditions when he is financially interested in a property under condemnation, partial release, foreclosure, or any one of the many other types of transactions or litigation.

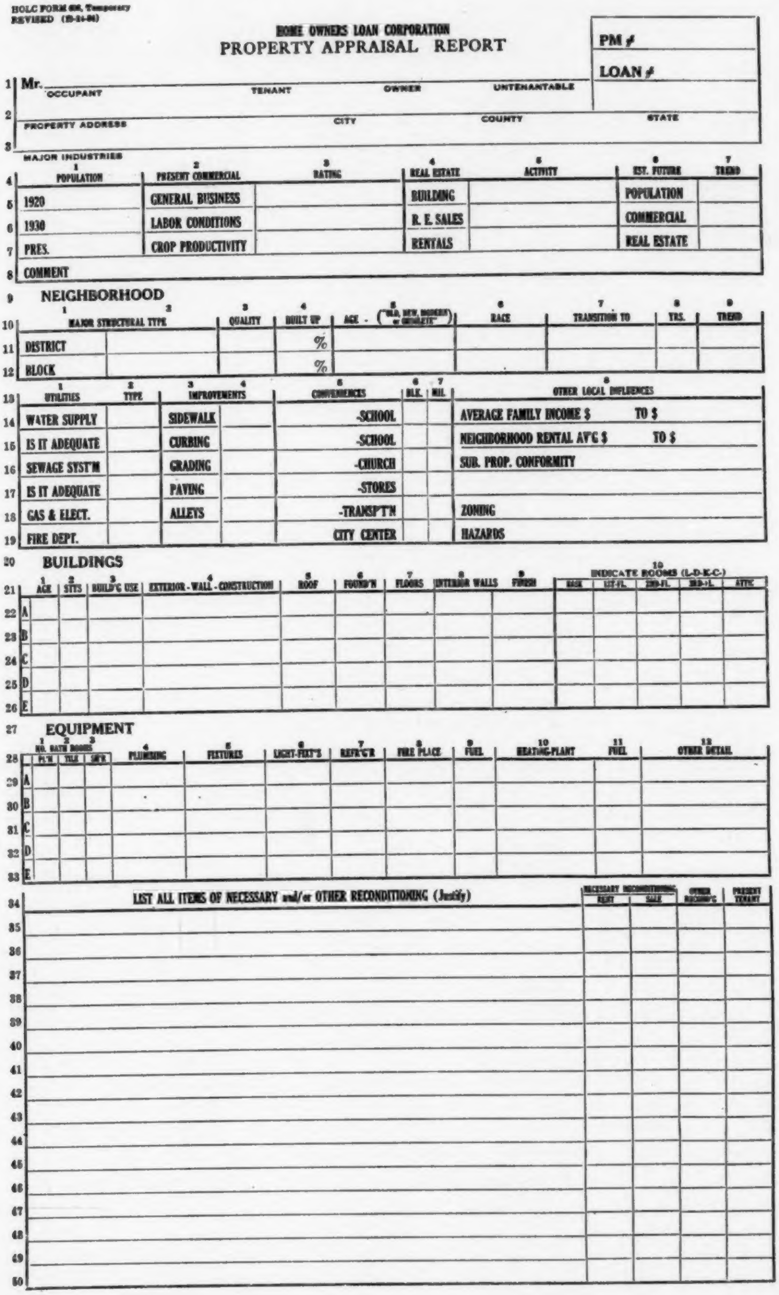
### CONCLUSION

The Property Appraisal Form represents the most recent H. O. L. C. contribution to the appraisal field, and, while it is designed for a specific purpose, it can be slightly modified and used to advantage by other institutions, as it embodies the more important and salient features required to picture the conditions and surroundings of the subject property as well as a detailed description of the structures involved. The appraiser who gathers the data and properly completes such a form gives value received, and the client who pays him receives a completed inventory, properly valued.

If a client does not demand such itemized factual data, then it is the appraiser's responsibility to inform him of the dangers of a less detailed report and the many advantages of a complete survey. If the fee offered per parcel is too small to warrant a written report, it is apparent that the purchaser does not understand the problems involved or else does not value the appraiser's report and services very highly. Under such circumstances the appraiser would better his professional reputation by refusing the assignment. The fee may be in proportion to the information required and submitted, but every qualified appraiser should maintain certain minimum standards and should not furnish an opinion of value unless that opinion is properly presented and thoroughly understood.

The appraiser should analyze and weigh with extreme care and caution each feature involved or affecting the subject property—as a result of his recommendations, the property may become the security for a loan, and through the subsequent liquidation of such loan a substantial loss might be sustained. Proper recommendations regarding the disposition of the property are desirable and of assistance to the owner of the property. His course of action because of such recommendations may mean the difference between a substantial profit or loss, depending upon how the market trends and influences have been interpreted.

* * *



HOLC FORM [illegible], Temporary
REVISED ([illegible])

HOME OWNERS LOAN CORPORATION
PROPERTY APPRAISAL REPORT

PM #
LOAN #

1 Mr. ____ OCCUPANT TENANT OWNER UNTENANTABLE

2 PROPERTY ADDRESS CITY COUNTY STATE

3 MAJOR INDUSTRIES

| | 1 POPULATION | 2 PRESENT COMMERCIAL | 3 RATING | 4 REAL ESTATE | 5 ACTIVITY | 6 EST. FUTURE | 7 TREND |
|---|---|---|---|---|---|---|---|
| 5 | 1920 | GENERAL BUSINESS | | BUILDING | | POPULATION | |
| 6 | 1930 | LABOR CONDITIONS | | R. E. SALES | | COMMERCIAL | |
| 7 | PRES. | CROP PRODUCTIVITY | | RENTALS | | REAL ESTATE | |
| 8 | COMMENT | | | | | | |

9 NEIGHBORHOOD

| 10 | 1 MAJOR STRUCTURAL TYPE | 2 | 3 QUALITY | 4 BUILT UP | 5 AGE - ("OLD, NEW, MODERN or OBSOLETE") | 6 RACE | 7 TRANSITION TO | 8 YRS. | 9 TREND |
|---|---|---|---|---|---|---|---|---|---|
| 11 | DISTRICT | | | % | | | | | |
| 12 | BLOCK | | | % | | | | | |

| 13 | 1 UTILITIES | 2 TYPE | 3 IMPROVEMENTS | 4 | 5 CONVENIENCES | 6 BLK. | 7 MIL. | 8 OTHER LOCAL INFLUENCES |
|---|---|---|---|---|---|---|---|---|
| 14 | WATER SUPPLY | | SIDEWALK | | -SCHOOL | | | AVERAGE FAMILY INCOME $ TO $ |
| 15 | IS IT ADEQUATE | | CURBING | | -SCHOOL | | | NEIGHBORHOOD RENTAL AV'G $ TO $ |
| 16 | SEWAGE SYST'M | | GRADING | | -CHURCH | | | SUB. PROP. CONFORMITY |
| 17 | IS IT ADEQUATE | | PAVING | | -STORES | | | |
| 18 | GAS & ELECT. | | ALLEYS | | -TRANSP'T'N | | | ZONING |
| 19 | FIRE DEPT. | | | | CITY CENTER | | | HAZARDS |

20 BUILDINGS

| 21 | | 1 AGE | 2 STYS | 3 BUILD'G USE | 4 EXTERIOR - WALL - CONSTRUCTION | 5 ROOF | 6 FOUND'N | 7 FLOORS | 8 INTERIOR WALLS | 9 FINISH | 10 INDICATE ROOMS (L-D-K-C-) BASE. | 1ST-FL. | 2ND-FL. | 3RD-FL. | ATTIC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 22 | A | | | | | | | | | | | | | | |
| 23 | B | | | | | | | | | | | | | | |
| 24 | C | | | | | | | | | | | | | | |
| 25 | D | | | | | | | | | | | | | | |
| 26 | E | | | | | | | | | | | | | | |

27 EQUIPMENT

| 28 | | 1 NO. BATH ROOMS PL'N | 2 TILE | 3 SH'R | 4 PLUMBING | 5 FIXTURES | 6 LIGHT-FIXT'S | 7 REFR'G'R | 8 FIRE PLACE | 9 FUEL | 10 HEATING-PLANT | 11 FUEL | 12 OTHER DETAIL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 29 | A | | | | | | | | | | | | |
| 30 | B | | | | | | | | | | | | |
| 31 | C | | | | | | | | | | | | |
| 32 | D | | | | | | | | | | | | |
| 33 | E | | | | | | | | | | | | |

| 34 | LIST ALL ITEMS OF NECESSARY and/or OTHER RECONDITIONING (Justify) | NECESSARY RECONDITIONING RENT | SALE | OTHER RECOND'G | PRESENT TENANT |
|---|---|---|---|---|---|
| 35 | | | | | |
| 36 | | | | | |
| 37 | | | | | |
| 38 | | | | | |
| 39 | | | | | |
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| 48 | | | | | |
| 49 | | | | | |
| 50 | | | | | |

### BUILDING CALCULATION

|  |  | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 51 |  | CUBIC CONTENT | ¢ | COST NEW | EFF AGE | % | PHYSICAL-DEP. | INSURABLE-VAL. | % | FUNCT'NL-DEP. | % | ECONOMIC-DEP. | % | TOTAL-DEP. | PRESENT-DEP. VAL. |
| 52 | A |  |  |  |  |  |  |  |  |  |  |  |  |  | $ |
| 53 | B |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 54 | C |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 55 | D |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 56 | E |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|---|
| 57 | BUILDINGS ▶ | A | B | C | D | E | TOTAL-INSURABLE-VALUE-AS-IS |  | ALL BUILDINGS<br>PRESENT DEPRECIATED<br>TOTAL VALUE-AS-IS |  |
| 58 | FUTURE UTILITY LIFE IN YEARS |  |  |  |  |  | TOTAL-INS.-VALUE-AS-RECOND'D |  |  |  |
| 59 | LAND—NO. OF UNITS @ $ PER EQUALS PRESENT JUSTIFIED LAND VALUE |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|---|
| 60 | EASEMENTS |  | CONTOUR |  | WALKS |  | RET-WALLS |  | LOT IMPROVEMENTS PRESENT-VALUE |  |
| 61 | RESTRICTIONS |  | ELEVATION |  | DRIVES |  | BULKHEADS |  | TOTAL-AS-IS SUMMATION ▶ |  |
| 62 | ENCROACHMENT |  | ACCESSIBILITY |  | FENCE |  | LAWN |  | VALUE-INCREASE WITH NEC. RECOND'G |  |
| 63 | WATER RIGHT |  | TEXTURE |  | ASH PIT |  | TREES |  | TOTAL-AS-RECOND'ED SUMMATION ▶ | $ |
| 64 | NEED SURVEY? |  |  |  | CISTERN |  | SHRUBS |  |  |  |

65 COMMENT

66

67 HIGHEST & BEST USE OF LAND AS A SITE - POTENTIAL VALUE 19 $

68 JUSTIFICATION

69

### CAPITALIZATION ANALYSIS

|  | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 70 | ANNUAL EXPENSE STATEMENT |  |  |  | FAIR ANNUAL INCOME (UNFURNISHED) |  |  |  |  | ADDITIONAL DATA |
| 71 | ITEMS | AS-IS | WITH NEC'Y RECOND'G | WITH OTHER RECOND'G | UNIT | ACTUAL | AS-IS | WITH NEC'RY RECOND'G | WITH OTHER RECOND'G | WOULD YOU RECOMMEND THIS PROPERTY BE RENTED AS A SINGLE UNIT? |
| 72 | TAXES |  |  |  | A |  |  |  |  | OR LEASED BY |
| 73 | INSURANCE |  |  |  | B |  |  |  |  | AT MONTHLY RATE OF $ |
| 74 | HEAT |  |  |  | C |  |  |  |  | AT ANNUAL RATE OF $ |
| 75 | GAS & ELECT. |  |  |  | D |  |  |  |  |  |
| 76 | WATER |  |  |  | E |  |  |  |  | LIST ALL CHATTELS (REMOVABLE) NECESSARY TO OPERATION |
| 77 | VACANCY |  |  |  | GROSS TOTAL |  |  |  |  |  |
| 78 | REPAIRS |  |  |  | ANNUAL EXPENSE |  |  |  |  |  |
| 79 | DEPRECIATION |  |  |  | ANN. INC. NET |  |  |  |  |  |
| 80 | MANAGEMENT |  |  |  |  | CAPITALIZED VALUATIONS<br>% | AS IS | % With Nec'y Recond'g | % With Other Recond'g |  |
| 81 | JANITOR |  |  |  | NET |  |  |  |  |  |
| 82 | TOTALS |  |  |  | GROSS |  |  |  |  | PRESENT TOTAL VALUE $ |

### SUMMARY AND MARKET ANALYSIS

|  | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |  |
|---|---|---|---|---|---|---|---|---|---|
| 83 | BUILDING STATUS | MONTHLY RENTAL (UNFURNISHED) |  |  | SALES EXPECTANCY |  |  | MARKETABILITY CODE |  |
| 84 |  | FAIR PRESENT | Rate of Marketability | FAIR 19 | CURRENT MARKET PRICE | Rate of Marketability | FAIR MARKET VALUE 19 | 1 | POOR |
| 85 | -AS-IS- |  |  |  |  |  |  | 2 | FAIR |
| 86 | WITH NEC. RECONDITIONING |  |  |  |  |  |  | 3 | AVERAGE |
| 87 | WITH OTHER RECONDITIONING |  |  |  |  |  |  | 4 | GOOD |
| 88 |  |  |  |  |  |  |  | 5 | EXCELLENT |

89 *I hereby certify that I have carefully inspected this property inside and outside; that the property appraised coincides with the legal description as furnished to me in the appraisal assignment and that I have no personal interest, present or prospective therein;*

90 *except* ........................................

91 *I recommend that this property be*.................... *for $*.................... *as in Line*.................... *The "Current Market*

92 *Price" and "Fair Market Value" are based upon sales terms which are:* ....................

93 ........................................

94 ........................................

95 DATE.................... 19...... APPRAISER'S SIGNATURE....................

96 APPRAISER'S NAME PRINTED....................

97 ADDRESS....................

| PLOT PLAN | FLOOR PLAN |
|---|---|
| SHOW SIZE AND SHAPE OF LAND—LOCATION AND MEASUREMENTS OF BUILDINGS, THEIR DISTANCE FROM TWO LOT LINES AND THE ROOM ARRANGEMENT OF THE BASEMENT.—SHOW TOTAL BUILDING HEIGHTS ON EACH STRUCTURE OR PORTION OF IT; AS EX. [illegible] | SHOW ROOM LAYOUT BY STORY, GIVING KIND OF FLOORS APPROXIMATE ROOM SIZE AND OTHER DETAIL BRIEF CONSIDERATION—USE SUPPLEMENTARY SHEETS (Form [illegible]) IF NECESSARY. |

**COMMENT**

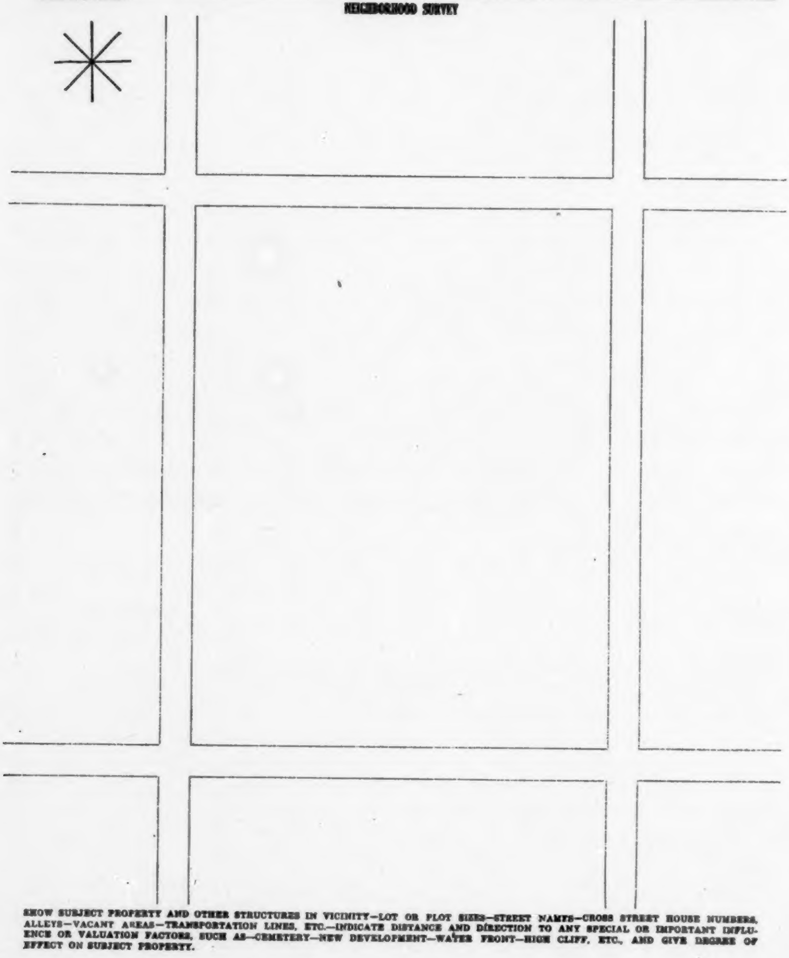
GIVE GENERAL CONDITION OF BUILDING—SUBDIVIDING POSSIBILITIES—UNUSUAL FEATURES OF PLOT OR IMPROVEMENTS

USE SPACE FOR ELEVATION SKETCHES

| | LIST INFLUENCING PROPERTIES & SOURCE OF INFORMATION | RELATIVE VALUE - ESTIMATE | ACTUAL TRANSACTION DATA | | | | |
|---|---|---|---|---|---|---|---|
| | | | SALES | RENTS | LEASES | VACANT | DATE |
| 1 | (SUBJECT PROPERTY) | $ | $ | $ | $ | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | | | | | | | |
| 5 | | | | | | | |
| 6 | | | | | | | |
| 7 | | | | | | | |
| 8 | | | | | | | |
| 9 | | | | | | | |
| 10 | | | | | | | |
| 11 | | | | | | | |
| 12 | | | | | | | |

INDICATE NORTH

NEIGHBORHOOD SURVEY



SHOW SUBJECT PROPERTY AND OTHER STRUCTURES IN VICINITY—LOT OR PLOT SIZES—STREET NAMES—CROSS STREET HOUSE NUMBERS, ALLEYS—VACANT AREAS—TRANSPORTATION LINES, ETC.—INDICATE DISTANCE AND DIRECTION TO ANY SPECIAL OR IMPORTANT INFLUENCE OR VALUATION FACTORS, SUCH AS—CEMETERY—NEW DEVELOPMENT—WATER FRONT—HIGH CLIFF, ETC., AND GIVE DEGREE OF EFFECT ON SUBJECT PROPERTY.

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# Comment and Discussion

## *Pollard*—ON THE EXPERT WITNESS

THE expert witness now commonly met in the courts is of recent origin. For many centuries the courts have felt free to call upon persons skilled in the arts and sciences and with a specialized knowledge of the subject matter of litigation. However, the persons called upon were usually adept in some line of business, or their individual activities were thought to have a specialized bearing upon the matter in question.

These men, who came into court and testified for the purpose of aiding the court, were not experts in the present sense of the word. They were merely persons who possessed some peculiar knowledge which was thought to be of value to the court. They were not trained for the purpose of serving as experts and testifying as such.

As long ago as the year 1553 Mr. Justice Saunders defined the use of experts in a famous statement, as follows:

> "If matters arise in our law which concern other sciences, we commonly apply for the aid of that science which is concerned therein, which is an honorable and commendable thing in our law, for thereby it appears that we do not despise all other sciences than our own, but we approve them and encourage them as things worthy of commendation."

As civilization became more and more complex, so did the matter of administering justice become more difficult in an ever growing and expanding social and economic order. The matter of administering justice became a matter of the adjudication of highly technical and specialized problems. To assist the court in the equitable adjudication of these complex problems, which had foundations in sciences other than the law, it became necessary for the courts to call upon *disinterested* persons who were peculiarly fitted to advise the courts.

These opinions, in a good measure, tended to influence the decisions of the courts and, as a result of the court calling in its own expert or a party litigant bringing in a neighbor or trained specialist to testify in his behalf, there arose a condition wherein persons trained themselves to appear and testify as experts in the courts. Impetus was given this movement by the recognition of the courts of the necessity of seeking aid from persons peculiarly fitted to express opinions of matters in litigation, such as the determination of realty values.

When the way was opened for the party litigants to supply their own experts, there grew up a corps of men, particularly in the appraisal field, whose services were for sale and who were willing to testify to matters which would help their employer support his contention. Out of this practice grew many abuses, with the result that the expert witness grew to be looked upon with disfavor by both the courts and the public generally. Oftentimes testimony was based upon the most nebulous of theories in the attempt to support an opinion that was unreasonable and unsupportable.

During the past thirty years this condition has brought about the feeling upon the part of many courts and those who have had occasion to litigate in the courts that expert testimony was a disgrace to the courts, to the group of which the expert witness is a part, and to the attorneys who purchased their services.

Inasmuch as the testimony of expert witnesses is usually *opinionated testimony*, the perjury law, which might apply to factual testimony, does not reach this group, and there is no curb on the testimony of the expert witness save his own conscience, which is no curb at all in many cases.

Recently Dr. Lewis M. Terman, of Stanford University, stated,

> "It is generally agreed that in this country expert testimony is a disgrace to everyone concerned,—to the court, to the person who gives it, and to the profession he represents. Not that expert testimony is *per se* unreliable; it is the system that makes it so. In the first place there is no scientific basis for the selection of experts and the result is that many of them are grossly incompetent to testify on the issues at stake. Secondly, they are chosen and paid by the litigants, with the inevitable result that each takes a partisan attitude and tries to give his employer his money's worth."

Of course, differences in opinion are permissible, but expert testimony, to be of value, must consist of opinions which are logically deducible from a certain statement of fact. Opinions of two or more persons might not exactly coincide even when based upon exact statements of fact. But, if the opinions are intelligently and honestly arrived at, the variance in the opinions would not be startling.

In most states the courts are allowed by law to appoint one or more experts to investigate, appraise, and testify at the trial relative to the matter of value; and the courts are allowed to fix the compensation in payment for the services thus rendered.

When an expert is called upon to testify in court, the value of his testimony depends upon many factors, some of which are:

1. The general regard, or disregard, in which the expert is held in the community, if known to the judge or jury. An unfavorable knowledge of the witness' reputation will serve to depreciate the value of his testimony; and the converse is equally true.
2. The general qualifications of the expert are a matter of no mean importance. The recitation of thorough qualifications will tend to instill confidence in the opinion rendered by the witness.
3. The general demeanor of the expert on the stand is also important. Even though the witness may be supremely qualified to render his opinion, if he handles himself on the stand in a vague, halting, hesitating, and uncertain manner, the good impression built up by his qualifications may be largely dissipated by the manner of presentation.
4. Then comes the matter of the apparent care with which the witness has investigated the matter at hand. This shows his particular fitness to render an opinion on this particular matter.
5. The demeanor of the witness under cross examination, his ability to calmly stand by his guns and to resist the temptation to argue with counsel or become angered—these too are important in tending to hold the favorable impression created during the direct examination.

Frequently, in the trial of a case, an opposing attorney will magnanimously offer to waive qualification. I believe that it is a mistake for an attorney to permit the waiver of qualifications of his own witnesses, particularly in jury cases. This is for the reason that the recitation of the qualifications is a build-up for the opinion of the witness, and this build-up may be very important to the court or jury.

On direct examination the appraiser's counsel is permitted to examine into the extent to which the appraiser has made an examination of the property in question. Although the appraiser may discuss in minute detail the sales and listings of other properties in the neighborhood, yet ordinarily he *may not mention prices.* This can be brought out only through the cross examination of opposing witnesses and then solely for the purpose of testing the knowledge of that witness.

Under cross examination the opposing counsel may inquire into anything the witness has testified to in his direct examination, such as his experiences, general qualifications, the things he did, the matters he considered, his processes of reasoning, computations, etc.

In conclusion, when an appraiser gets the reputation that his testimony can be purchased to support either a high or a low value, that his professional integrity is on the auction block to the highest bidder, so to speak, the worth of such testimony becomes valueless when the facts become known. It is not only better from the standpoint of morality to refuse employment when biased testimony is sought, but it is more profitable in the long run not to prostitute one's professional reputation.

W. L. POLLARD.

Los Angeles, Calif.
December 5, 1936.

### *Reeves*—ON NET RENTALS OF "TAX-PAYER" PROPERTIES

THE name "tax-payer" as used in this discussion may perhaps be misapplied, for, in its true sense, a "tax-payer" building should not be expected to yield net income sufficient to pay interest on its structural cost plus the value of its site. The genesis of the term was in the practice of erecting a somewhat temporary building upon land which the owner was not then ready to develop fully; this was expected to carry itself and to earn in addition enough to pay the land tax, which otherwise would be too burdensome during the period of transition.

Most of the structures which we now term "tax-payer" should not be so classified. They are either quite appropriate to their sites and are expected to last as long and produce as much as their neighbors, or they definitely are parasites which yield as much, and frequently more, net return than the larger and costlier structures surrounding them which have created the high values in their vicinity.

This article deals generally with some of the fundamental financial phases that concern the appraiser, assessor, investor, rental and sales agents, and others who are interested in small commercial buildings of one, two, or three stories.

This study, if so simple an analysis may be thus termed, was made to find and record the minimum net rentals that such properties should yield, gauged by the fixed charges incurred upon various combinations of land value and building cost. First of all, it may be stated that "net rental" as considered herein means that amount available to the owner for taxes, building amortization, and interest upon capital; all other costs are assumed to be otherwise accounted for.

The quickest and most facile way to tell the story and for the reader to grasp the significant facts is by tabular reference. Such a table is shown on page 71, wherein various developments of a typical city lot, 20′ x 100′, are contrasted. The appropriate figures are given for five types of buildings, each covering in one hypothesis the full lot area and in the second only one-half that area, and each in conjunction with ten different lot values, ranging from fifty cents to fifty dollars per square foot.

These buildings are taken on an assumed building cost per square foot as:

1. A $3.00 one-story store without basement.
2. A $4.00 one-story and basement store.
3. A $6.00 two-story and basement building; stores on first and second floors.
4. A $7.00 two-story and basement building; store on first floor and apartments on second floor.
5. A $10.00 three-story and basement building; store on first floor and apartments on upper floors.

The fixed charges assumed are two per cent for taxes and six per cent for interest on land and building, and an additional two per cent of the building cost for amortization. The amounts are stated in dollars per square foot of the gross building area, not lot area, and include the charges against both the land and building. The monthly rentals listed represent the sums necessary to pay these fixed charges and include a ten per cent allowance for vacancies.

The comprehensive picture given by the tabulation emphasizes some of the basic relationships that most of us know—if we stop to think—but the full significance of which we do not always realize. We recognize in a vague sort of way that when the unit cost of the building exceeds that of its site, it is frequently uneconomical to build to the full lot depth. How many of us have realized, however, that when this disparity is great, the fixed charges for a fifty-foot building may increase by from seventy to one hundred per cent if the full one hundred-foot depth is covered. Assume that $35 is a fair monthly rental for the one-story store on fifty cent land (Col. 4): Will anyone pay eighty per cent more rent ($63) for its sister building, one hundred feet deep? It is not likely.

Suppose that the three-story building on $2.00 land does rent for the $122 (Col. 12) stated in the table and that this is made up of $60 for the fifty-foot store and $35 and $27 respectively for the second and third floor apartments. If this were a one hundred-foot building, the rental required would be $215; assuming that the front fifty feet might maintain the same rent schedule, the rear must then produce $93. Would the first floor bring in $40, the second $30, and the third $23? They might, but the fifty-foot building would evidently be a much safer development of the site. Apparently, those who dedicate to the city the alleys from the rear of low-value land in commercial districts are well advised.

It is doubtful if the great increase in fixed charges consequent upon adding another story or two to a structure is definitely appreciated. Note in the table that on $1.00 land the change from a one-story and basement store to a two-story structure adds about forty per cent in fixed charges; if the second story is fitted for apartment use, the increase is over fifty per cent; if two apartment floors are added, the increase is over one hundred per cent.

Conversely, it is common knowledge that high-priced land must be used intensively, but it is seldom realized that a $10 building on $50 land can be extended from half to full lot depth without increasing the fixed charges more than ten per cent; certainly, the additional facility would bring in more than ten per cent greater rental in such a district. Similarly, we find that on high-value land the increase in fixed charges, due to adding upper floors, is relatively so small that the greater total rentals required may be quite easily attainable. Note that on $10 land the change from a one-story and basement store demands an increase of only fifteen or twenty per cent for the second floor, about twenty-five per cent for two upper stories, and that these increased costs are only five per cent and ten per cent, respectively, where the hypothesis is changed to assume the building as standing upon $50 land.

Some readers may think that interest is not properly a fixed charge; others may be of the opinion that only the interest paid or due upon money that is actually borrowed should be so classified. From a technical viewpoint, every cent earned above expenses, taxes, and amortization sufficient to offset depreciation in capital value is *profit, a* yield upon invested capital.

This study is "in rem"; it is the property itself with which we are concerned, and

## NET RENTALS REQUIRED TO MEET FIXED CHARGES AGAINST "TAX-PAYER" TYPE OF PROPERTY—Including a 10% Allowance for Vacancies

F. C. Total Fixed Charges per Square Foot of building area.
M. R. Total monthly rental required for said Fixed Charges.
F. C. Taxes at 2%; Interest at 6%; Bldg. Amortization at 2%.

| 20′ x 100′ LOT | | TYPE AND ASSUMED COST OF BUILDING IMPROVEMENT | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Land Value Per S. F. of Lot | Portion of Lot Covered by Building | 1 Story No Basement Store Cost—3 $ S. F. | | 1 Story and Full Basement Store Cost—4 $ S. F. | | 2 Story and Full Basement Store Cost—6 $ S. F. | | 2 Sty. & Basement 1st Fl. Store 2nd Fl. Apts. Cost—7 $ S. F. | | 3 Sty. & Basement 1st Fl. Store Upper Fl. Apts. Cost—10 $ S. F. | |
| | | F. C. | M. R. | F. C. | M. R. | F. C. | M. R. | F. C. | M. R. | F. C. | M. R. |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| $ | % | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| .50 | 100 | .34 | 63 | .44 | 81 | .64 | 117 | .74 | 137 | 1.04 | 192 |
| | 50 | .38 | 35 | .48 | 44 | .68 | 63 | .78 | 72 | 1.08 | 100 |
| 1.00 | 100 | .38 | 70 | .48 | 89 | .68 | 126 | .78 | 144 | 1.08 | 200 |
| | 50 | .46 | 43 | .56 | 52 | .76 | 70 | .86 | 80 | 1.16 | 107 |
| 2.00 | 100 | .46 | 85 | .56 | 104 | .76 | 140 | .86 | 159 | 1.16 | 215 |
| | 50 | .62 | 57 | .72 | 67 | .92 | 85 | 1.02 | 94 | 1.32 | 122 |
| 3.00 | 100 | .54 | 100 | .64 | 118 | .84 | 155 | .94 | 174 | 1.24 | 230 |
| | 50 | .78 | 72 | .88 | 81 | 1.08 | 100 | 1.18 | 109 | 1.48 | 137 |
| 4.00 | 100 | .62 | 115 | .72 | 133 | .92 | 170 | 1.02 | 189 | 1.32 | 244 |
| | 50 | .94 | 87 | 1.04 | 96 | 1.24 | 115 | 1.34 | 124 | 1.64 | 152 |
| 5.00 | 100 | .70 | 130 | .80 | 148 | 1.00 | 185 | 1.10 | 204 | 1.40 | 259 |
| | 50 | 1.10 | 102 | 1.20 | 111 | 1.40 | 130 | 1.50 | 139 | 1.80 | 166 |
| 6.00 | 100 | .78 | 145 | .88 | 190 | 1.08 | 200 | 1.18 | 218 | 1.48 | 274 |
| | 50 | 1.26 | 116 | 1.36 | 126 | 1.56 | 145 | 1.66 | 154 | 1.96 | 181 |
| 7.00 | 100 | .86 | 160 | .96 | 178 | 1.16 | 215 | 1.26 | 233 | 1.56 | 289 |
| | 50 | 1.42 | 131 | 1.52 | 141 | 1.72 | 159 | 1.82 | 168 | 2.12 | 196 |
| 8.00 | 100 | .94 | 174 | 1.04 | 193 | 1.24 | 229 | 1.34 | 248 | 1.64 | 303 |
| | 50 | 1.58 | 146 | 1.68 | 155 | 1.88 | 174 | 1.98 | 183 | 2.28 | 211 |
| 9.00 | 100 | 1.02 | 189 | 1.12 | 206 | 1.32 | 245 | 1.42 | 263 | 1.72 | 318 |
| | 50 | 1.74 | 161 | 1.84 | 170 | 2.04 | 189 | 2.14 | 198 | 2.44 | 226 |
| 10.00 | 100 | 1.10 | 203 | 1.20 | 222 | 1.40 | 258 | 1.50 | 277 | 1.80 | 333 |
| | 50 | 1.90 | 176 | 2.00 | 185 | 2.20 | 205 | 2.30 | 214 | 2.60 | 241 |
| 12.00 | 100 | 1.26 | 233 | 1.36 | 252 | 1.56 | 289 | 1.66 | 307 | 1.96 | 363 |
| | 50 | 2.22 | 205 | 2.32 | 215 | 2.52 | 233 | 2.62 | 243 | 2.92 | 270 |
| 15.00 | 100 | 1.50 | 277 | 1.60 | 296 | 1.80 | 333 | 1.90 | 352 | 2.20 | 407 |
| | 50 | 2.70 | 250 | 2.80 | 259 | 3.00 | 278 | 3.10 | 287 | 3.40 | 315 |
| 20.00 | 100 | 1.90 | 352 | 2.00 | 370 | 2.20 | 407 | 2.30 | 426 | 2.60 | 482 |
| | 50 | 3.50 | 324 | 3.60 | 333 | 3.80 | 352 | 3.90 | 361 | 4.20 | 389 |
| 25.00 | 100 | 2.30 | 426 | 2.40 | 444 | 2.60 | 481 | 2.70 | 500 | 3.00 | 555 |
| | 50 | 4.30 | 398 | 4.40 | 417 | 4.60 | 426 | 4.70 | 435 | 5.00 | 463 |
| 30.00 | 100 | 2.70 | 500 | 2.80 | 518 | 3.00 | 555 | 3.10 | 574 | 3.40 | 630 |
| | 50 | 5.10 | 472 | 5.20 | 482 | 5.40 | 500 | 5.50 | 508 | 5.80 | 537 |
| 35.00 | 100 | 3.10 | 574 | 3.20 | 592 | 3.40 | 634 | 3.50 | 644 | 3.80 | 704 |
| | 50 | 5.90 | 547 | 6.00 | 556 | 6.20 | 574 | 6.30 | 583 | 6.60 | 612 |
| 40.00 | 100 | 3.50 | 644 | 3.60 | 666 | 3.80 | 704 | 3.90 | 722 | 4.20 | 778 |
| | 50 | 6.70 | 621 | 6.80 | 620 | 7.00 | 648 | 7.10 | 657 | 7.40 | 686 |
| 45.00 | 100 | 3.90 | 722 | 4.00 | 740 | 4.20 | 778 | 4.30 | 796 | 4.60 | 852 |
| | 50 | 7.50 | 694 | 7.60 | 703 | 7.80 | 722 | 7.90 | 732 | 8.20 | 759 |
| 50.00 | 100 | 4.30 | 796 | 4.40 | 815 | 4.60 | 852 | 4.70 | 874 | 5.00 | 926 |
| | 50 | 8.30 | 768 | 8.40 | 778 | 8.60 | 797 | 8.70 | 806 | 9.00 | 833 |

it matters not whence came the money that created it nor where its ownership now lies. Having decided that this type of investment should produce income at a certain rate, the charge for use of the capital represented thereby is "fixed"; it is to be added to such other amounts as the owner must secure from the property to warrant its being called a "tax-payer," as that term is now commonly used.

The uses of a table such as presented are obvious; the builder and his architect, having surveyed rental possibilities in the neighborhood, are quickly able to determine the limitations of size and cost under which they must build—or the price which can be paid for the desired site. With the same knowledge as to rentals attainable, the underwriter can easily survey the fiscal specifications submitted to him for a construction loan and designate such alternative as he will approve. The appraiser can check his general conclusions and make an appropriate allocation of value to land and to improvements.

Similar tables can be prepared for such other combinations of land and building cost, lot occupancy, and rates of fixed charges as one's preference or necessity dictates. They will save much time and lead to consistent thought and practice in the solution of many problems.

CUTHBERT E. REEVES, M.A.I.

Buffalo, N. Y.
December 1, 1936.

### *Hoyt*—ON THE USE OF "STANDARDS" IN APPRAISAL PRACTICE

IN R. M. Fischer's article in the October *Journal*, "The Use of 'Standards' in Appraisal Practice," he gives the *Mills Rule* for determining the required square feet of radiation for a steam heating system as:

1. One-half of the exposed glass area —in square feet.
2. One-twentieth of the exposed glass area—in square feet.
3. One-two hundredth of the cubic contents—in cubic feet.

I believe he means the rule to be as follows:[1]

1. One-half of the exposed glass area —in square feet.
2. One-twentieth of the exposed *wall* area—in square feet.
3. One-two hundredth of the cubic contents—in *square* feet.

I use the *Mills Rule* as follows:

2 sq. ft. of glass area equal 1 sq. ft. of cast iron radiation.
20 sq. ft of wall area equal 1 sq. ft. of cast iron radiation.
200 cu. ft. of room content equal 1 sq. ft. of cast iron radiation.

In his reference to 240 B.T.U.'s, he says, "it refers to 'net' or 'installed' radiation, making no allowance for the effect of piping."

Any tank, radiator, or pipe containing steam will emit 240 B.T.U.'s per square foot per hour, hence piping must be allowed for. Pipe radiation is overcome in part by covering, but still there is radiation from all piping in the system, so an allowance must be made for this.

The cubic foot method of estimating heating requirements of a building in tons of coal is practical when proper data are assembled. The calculations follow the same process as the assembling of the necessary data for estimating the cost of a building in unit cost per cubic foot content.

Mr. Fischer states on page 387: "The average heating season was found to be 210 days at seventeen hours per day."

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[1] Please refer to page 22 for the correction regarding this rule as referred to in "The Use of 'Standards' in Appraisal Practice," by R. M. Fischer, in the October *Journal*.

My experience has been that steam must be kept up twenty-four hours a day during the winter season, although during the night usually from one-half to a pound of pressure is sufficient. My feeling is that a more useful statement would be: "The average heating season is 2,000 hours per year."

JOHN R. HOYT, M.A.I.
New York, N. Y.
December 1, 1936.

### *Wagner*—ON LICENSING APPRAISERS

AS I read Mr. Rowlands' interesting discussion on "Certification of Real Estate Appraisers by Public Authority" in the October *Journal*, I could not help but reflect upon the extent of such control at this time, if not by legislation, by practice.

Today appraisers are not selected because of their membership on the loan committee of the institution which they represent. This practice expired with defaulted mortgages and the troublesome real estate times from which we are emerging. The directors in charge of a financial institution have learned that far too often a personal interest has reflected itself in the value of the property appraised. A disinterested party, independent, trained, and working for a fee, is found to give a better, more accurate, and free-from-pressure opinion.

From this experience all governmental bodies have come to the same method of obtaining opinions of value. The Home Owners' Loan Corporation, Reconstruction Finance Corporation, and the Federal Housing Administration have augmented their staffs with capable men who make their reports upon a fee basis. The Treasury Department, Federal Courts, and Tax Assessors offices call upon men qualified for special work to render opinions.

From what source are these men chosen? It is the rare exception that the men selected are not members of some professional appraisal organization. Men interested in fostering improved methods have realized the need and have come forward with the instrumentalities which give appraising a professional background.

In tracing the history of the law, medicine, and accountancy, the same opposition to governmental control which now disturbs us was present. I believe that the indictment is against those who fear the legalizing of control rather than the government. The professional bodies must exert sufficient power to control the selection of the governing bodies. The legal profession and medical profession are outstanding examples of this interest and influence.

To follow through on Mr. Rowlands' discussion, his recognition of the lack of proper education and academic training which would afford the background for the professional appraiser is well taken. This training, however, is being offered by various universities, colleges, and other accredited institutions. The coordination of courses so that the training is standardized and recognized by states, which may in the future prescribe written examinations, is the only step which needs to be taken to make the procedure uniform.

As the first step in such a move, I suggest a meeting of such men as George L. Schmutz or Thurston H. Ross, representing the University of Southern California and the American Institute of Real Estate Appraisers; Frederick M. Babcock, Federal Housing Administration; Herman O. Walther, Northwestern University; Harry Grant Atkinson, National Association of Real Estate Boards; Ernest M. Fisher, University of Michigan; Richard Ely, Yale University; and K. Lee Hyder, Chairman of the Education and Research Committee of the American Institute of Real Estate Appraisers, at which time fundamental requirements for qualification as real estate appraisers could be formulated and a course of study prescribed.

From such basic requirements the university or college offering the courses may set up the necessary prerequisites and offer courses which will prepare the student for any examination which may take place.

The profession may look forward to the enactment of such state laws as New York is now fostering. I believe that this step in New York is a forerunner of such a movement, which will spread rapidly to all states. Such a movement is only the aftermath of a real estate cataclysm which could have been tempered if requirements for qualified real estate men to make appraisals had been in effect. In all financial affairs we may expect the government to reach out its protecting arm, and real estate securities will not be exempt.

The American Institute of Real Estate Appraisers is a national organization, with men well qualified to serve on examining boards. We should point our activities in this direction so that the future of our profession will not fall into unqualified hands.

PERCY E. WAGNER, M.A.I.

Chicago, Ill.
December 7, 1936.

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# What to Read

Comments on recent surveys, books, and articles of interest to real estate appraisers.

**Carrie Maude Jones, Editor** **Librarian, American Institute of Real Estate Appraisers**

## Inwood and Hoskold and Their Tables

The Inwood Tables are so named after William Inwood, an English architect, who was born in 1771 and died in 1843. In 1811 he published "Tables for the Purchasing of Estates and for the Renewal of Leases Held Under Corporate Bodies." A second edition appeared in 1820 and the twenty-first edition by F. Thoman, in 1880. The thirty-third edition by Schooling was published in 1930.[1] New tables have been added from time to time; the thirty-third edition contains not only the original Inwood Compound Interest Tables but Money Lenders Tables, Mortality Tables, and many others in which the ordinary real estate appraiser is not greatly interested. The author of the last edition is an Englishman; accordingly, the tables are written in pounds, shillings, and pence, as were both the original Inwood and Hoskold Tables. This does not make the tables more difficult to use, as whether written upon the basis of the unit one, one dollar, one pound, or any other unit, the figures will be the same. Schooling states, "These Inwood Tables have been recognized by appraisers as standard for more than a century."

H. D. Hoskold was a civil and mining engineer of England and afterward Chief of the Argentine Government's Division of Mines and Geology. He published the first edition of his Tables in 1877 and a second edition in 1905.[2] Hoskold states, "These annuity tables are based on allowing interest to a purchaser of any annuity, benefit, or income to be derived from mines or otherwise at one rate of interest and redeeming the capital invested at another practical rate of interest." Hoskold was particularly interested in appraising coal mines and timber lands—real estate with depleting assets—and constructed his tables with a view of their application to these two types of real estate. Hoskold states that the Inwood Table is based upon "incorrect principles." "Its application to the valuation of annuities, where interest is allowed at higher rates per cent than can possibly be found for reproducing capital, is entirely fallacious, for the principle upon which it is based assumes that we can reproduce capital, which may have been invested, at the same rate of interest as that allowed and expected to be realized on the purchase money invested."

The limits of this review do not permit of a discussion of the use and relative values of these Tables. This subject has been discussed in a number of issues of the *Journal.*

George L. Schmutz has written a text book entitled, "Capitalization Tables with Problems,"[3] in which both the Inwood Tables and Hoskold Tables are presented, together with a very clear and direct statement covering the Compound Interest Valuation Premise by Inwood and the Hoskold Sinking Fund Valuation Premise.

The six compound interest tables with which real estate appraisers generally are primarily concerned are listed below in the order in which they appear in "Mathematical Principles of Finance," by F. C. Kent.[4] These are the so-called Inwood Tables. For the purpose of comparison, the factors for each of the tables are presented upon the basis of ten years at five per cent, which rate is used solely for the purpose of illustration.

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[1] Inwood, William. "Tables of Interest and Mortality for Purchasing of Estates, Valuation of Properties." 33d ed. by Sir William Schooling. London: Crosby, Lockwood Co., 1930. xiv, 430 pp. 9s.

[2] "The Engineers' Valuing Assistant, Being a Practical Treatise on Collieries and Other Mines, also Set of Valuation Tables." 2nd ed. London: Longmans, Green & Co., 1905. 185 pp. $3.50.

[3] Los Angeles: Author, 1936. 38 pp. $1.50.

[4] 2nd ed. New York: McGraw-Hill, 1927. 177 & 214 pp. $4.00.

### BY INWOOD'S TABLES[5]

I. Compound Amount of 1—10 yrs. @ 5%—Factor 1.6288.
II. Present Value of 1—10 yrs. @ 5%—Factor .6139.
III. Amount of 1 *per annum*—10 yrs. @ 5%—Factor 12.5778.
IV. Present Value of 1 *per annum*—10 yrs. @ 5%—Factor 7.7217.
V. Sinking Fund Table—10 yrs. @ 5%—Factor .0795.
VI. Amortization Table to provide a sinking fund @ 5% and to pay interest @ 5% on unpaid balances—10 yrs. @ 5%—Factor .1295.

### RELATION BETWEEN TABLES

*Tables I and II:* The compound interest tables are founded on Table I, the use of which Table may be illustrated as follows: The compound amount of 1 @ 5% for ten years may be found by raising 1.05 to the tenth power, or by using 1.05 ten times as a factor. The result is 1.6288. This factor may be found immediately by referring to the Compound Amount of 1 Table for 10 years @ 5%. The relation between Table I and Table II is such that the reciprocal of a factor in Table I equals the corresponding factor in Table II, and vice versa, years and rate being the same; that is, $\frac{1}{1.6288} = .6139$, which is the factor representing the present value of 1 for 10 years @ 5%.

*Tables III and V:* The reciprocal of a factor in Table III equals the corresponding factor in Table V, years and rate being the same; that is, the amount of 1 per annum for 10 years @ 5% is the factor 12.5778. Its reciprocal is $\frac{1}{12.5778}$, or .0795. Likewise, the reciprocal of .0795 equals 12.5778.

*Tables III, IV, and I:* If the factors in Table III are divided by corresponding factors in Table IV, years and rate being the same, the results will be corresponding factors in Table I; that is, if the "Amount of 1 per annum" is divided by the "Present Value of 1 per annum," years and rate being the same, the results will be the "Compound Amount of 1" for the same number of years at the same rate; that is, $12.5778 \div 7.7217 = 1.6288$. It follows, of course, that $7.7217 \times 1.6288 = 12.5778$.

### THE AMOUNT OF ONE PER ANNUM

The amount of 1 per annum may be found by a series of additions from the amount of 1. If to the initial amount of 1, there is added the amount of 1 @ 5% for one year, 1.05, and to this amount there is added the amount of 1 @ 5% for two years, 1.1025, and to this amount is added the amount of 1 @ 5% for three years, 1.1576, the result is the amount of 1 per annum for four years, 4.3101. This factor, of course, may be immediately found from Table III, the amount of 1 per annum for four years @ 5% being 4.3101.

### THE PRESENT VALUE OF ONE PER ANNUM

The present value of 1 per annum may be obtained from the present value of 1 by a series of additions. The present value of 1 for one year @ 5% is .9523; for two years, .9070; for three years, .8638; and for four years, .8277. By adding, the sum is found to be 3.5459, which is the present value of 1 per annum for four years @ 5%, as indicated in the 5% column, Table IV, at four years. Other relationships among the tables may be worked out if desired.

In his text Hoskold shows in Table XII, page 169, the amount and rate per cent which he states is the amount and rate per cent of loss on the purchase of every annuity by the old table, i. e., purchased by the Inwood Table instead of by the Hoskold Table. To illustrate: What is the present worth of a well secured lessor's interest in a twenty-five year net ground lease which pays $5000 per year?[6]

Using the Inwood Table with the 5% rate, the factor is 14.0939. The value is $5000 x 14.0939, or $70,469.50. Using the Hoskold Table with the 5 and 3 rate, the factor is 12.915. The value is $5000 x 12.915, or $64,575.00. The difference is $5,894.50. That is, the value by the Inwood Table is approximately 9% higher than by the Hoskold Table. According to Hoskold, the purchaser of the above annuity by the Inwood Table would lose between 8% and 9% on every dollar invested.

The mathematical processes employed in appraising income-producing real estate are primarily essential and necessary, yet it should be emphasized that these tables and processes do not constitute the appraisal of real estate any more than tools used in building a house constitute the house. As has been repeatedly stated, the appraisal of real estate is not and can never become an exact science, for it involves values sometimes determined for many years in the future.

**RALPH V. FIELD, M.A.I.**

Galesburg, Illinois.
December, 1936.

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[5] This table can easily be constructed from factors in the Sinking Fund Table by adding the interest rate. The factor, .1295, is composed of the above Sinking Fund factor, .0795, plus the 5% interest rate.

[6] In the solution, reversionary interests are disregarded.

# Reviews of Recent Books

Silverherz, Joseph D. THE ASSESSMENT OF REAL PROPERTY IN THE UNITED STATES. *Albany, J. B. Lyon Company, 1936. 396 pp. $1.00.* (Special Report of the New York State Tax Commission, No. 10.)

THIS careful study of the technique and methods of assessing real property in the United States was prepared by Mr. Silverherz, who was given a special leave of absence from the faculty at Columbia University.

The monograph is divided into four parts. The first part deals with the historical perspective of assessing from the crude methods existing in the Colonial and early national periods down to the present time.

The second part is a compilation of the organization provided for assessment review, equalization, and supervision and a survey of the findings of research investigators on assessment conditions throughout the United States. This section is quite complete and is no doubt the most valuable portion of the work, since for the first time these formerly unordinated data have been analyzed and organized. The following information on each state is given:

1. A description of the organization provided for assessment review and equalization.
2. A description of the statutory powers and duties of bodies with respect to state supervision and control.
3. A summary of the actual character and extent of such supervision and control.
4. A description of recent assessment conditions.

These data are very well summarized, analyzed, and interpreted at the end of the section.

The third section is in the nature of a theoretical analysis, but apparently every effort has been made to correlate theoretical considerations with actual experience.

In the fourth section is a recommendation for state administration, and a program for the state of New York is outlined. Many lesser reforms are pointed out which should improve present assessment conditions, and it presents admirably a plea for more equitable, economical, and efficient administration of real property taxes. There is an excellent bibliography and a few forms and charts, together with tables indicating certain typical conditions.

This text is well suited to the needs of assessment officials, students, and others interested in the improvement of assessment conditions.

HARRY S. CUTMORE, M.A.I.

Chicago, Illinois.

Marston, Anson and Agg, Thomas R. ENGINEERING VALUATION. *New York, McGraw-Hill Book Co., Inc., 1936. 655 pp. $6.00.*

AFTER fifteen years of preparation, the Senior Dean of Engineering, Anson Marston, and the Dean of Engineering, Thomas R. Agg, both of Iowa State College, have published this year probably the most monumental work on valuation ever produced. Dean Marston is also Chairman of the Committee on Valuation and Depreciation of the Engineering, Economics, and Finance Division of the American Society of Civil Engineers.

"Engineering Valuation" treats of the basic principles underlying the valuation of industrial properties and public utilities with illustrations of the application of these principles to specific valuations. While for the most part it does not deal specifically with the everyday problems of real estate valuation, it does treat virtually every phase of industrial property and utilities with particular emphasis on financing and rate making. One chapter, however, takes up the valuation of land and includes severance damages, plottage values, depth factors, corner influence, the appraisal of inside lots, irregularly shaped parcels, and farm lands.

In order to show the comprehensiveness of the work, a few chapter headings may be of interest: Valuation and Value—Depreciation Principles and Relations—The Methods of Estimating Depreciation—The Original-cost Value, Reproduction-cost Value, and Fair Cost-value of Fixed-capital Physical Property—The Intangible Values Known as Preliminary-Expense and Going Value—Valuation of Mines and Timberlands.

Features are the inclusion of a synopsis of controlling U. S. Supreme Court decisions affecting the practice of valuation and the development of an entirely new principle of depreciation.

This book grew out of five previous mimeographed editions used in text books before classes of engineering students. In each successive stage the manuscript has been tested thoroughly for improvement. It has been amplified with new studies, placing mortality characteristics of industrial property upon a sound scientific basis as is human mortality in life insurance.

There will not be 100 per cent agreement on the treatment of many subjects, but it does raise issues and lay foundations for intelligent consideration. The book represents a well worthwhile endeavor and is heartily recommended to all keen students of valuation problems.

CARRIE MAUDE JONES.

Chicago, Illinois.

# What's in the December Magazines

## INTERESTING ARTICLES OF THE MONTH IN REAL ESTATE PERIODICALS

### Real Estate

IT IS VITAL TO CORRELATE DATA, by H. O. Walther. Some thoughts which he presented to the American Institute of Real Estate Appraisers at the New Orleans Convention.

TWO REASONS FOR RAISING RENTS, by G. C. McBride. Granted that rents should be raised, the first question is: How much? And the second question is: In what manner?

WILL CITIES CONTINUE TO GROW? by O. E. Baker. Will more or fewer people live on the land in the future development of this country?

### The Architectural Forum

BLOCK DEPARTMENT STORE. Architects and merchandisers collaborate on a complete, large-scale remodeling job.

SAN FELIPE APARTMENTS. Small, multi-family dwellings, compact and livable in plan, modern in design, local in character.

SCULPTURE, by Ralph T. Walker. Architectural sculpture by Leo Friedlander.

BUILDING MONEY. Purdue's Housing Research Project and its cost . . . Markham Little Farms: the subsistence homestead reaches the commercial subdivision . . . Erlen and the mighty six per cent that meant subdivision volume records.

### Buildings and Building Management

PERCENTAGE LEASE PRACTICES, by Frank S. Slosson. A nationally known authority on percentage leases sums up the present renting situation and outlines good practices in making percentage leases.

AFTER THE RIVER CAME THROUGH MY FRONT DOOR, by J. P. Findley. Interesting feature of a rehabilitation program after the March flood.

COMPLETE MODERNIZATION EARNS SUBSTANTIAL DIVIDENDS. Before modernization, this apartment building was earning only a fraction of one per cent on the mortgage investment. Now, it is earning a substantial return on both the old and the new investment.

### National Real Estate Journal

THE FUTURE OF THE FHA, by Stewart McDonald. The Federal Housing Administrator asks for recommendations from real estate men on amendments to the existing act.

NEW MORTGAGE BUSINESS THROUGH MORTGAGE PARTICIPATION PLAN, by Robert F. Bingham. The "single participation mortgage" plan and the "mortgage pool" plan are carefully explained.

COLOR TRENDS FOR HOUSE EXTERIORS, by M. Rea Paul. The colorist of the National Lead Company Research Laboratories has recently completed a study of the exterior decoration of 134 single-family dwellings in the suburban communities near New York City.

### Journal of the Auctioneers' and Estate Agents' Institute

INCOME TAX ON LAND, by N. E. Mustoe. A forty-five page article explaining in detail England's system of assessing taxes upon the basis of income.

### Federal Home Loan Bank Review

APPRAISAL METHODS AND POLICIES. The second in a series of articles sponsored by the Federal Home Loan Bank Board at Washington.

INDEXES OF SMALL-HOUSE BUILDING COSTS. Total costs and cubic foot costs of building a typical six-room house in twenty-four cities.

# Digest of the Minutes

## FIRST SESSION OF THE GOVERNING COUNCIL

THE Governing Council of the American Institute of Real Estate Appraisers convened in Room C of the Roosevelt Hotel in New Orleans, Louisiana, on Monday, November 16, 1936. The meeting was called to order by President Maurice F. Reidy at 8:30 P. M.

### MINUTES OF PREVIOUS MEETING

A motion was made, seconded, and carried that the reading of the minutes of the meeting held in Chicago on May 26, 1936, be waived.

### MEMBERSHIP REPORT

| Membership Growth | Nov. 1, 1935 | Nov. 1, 1936 |
|---|---|---|
| A. Number of Members in Institute | 394 | 463 |
| B. Number of Associate Members | 15 | 18 |
| C. Number of Affiliate Members | 228 | 207* |
| | 637 | 688 |

(*Includes 50 who are affiliates pending application for Member Grade.)

In the absence of J. Alvin Register, of Jacksonville, Florida, Chairman of the Membership Committee, Mr. John R. Hoyt, of New York City, who presided at the Membership Committee's meeting, read Mr. Register's report. A motion was made, seconded, and unanimously carried that the report of the Membership Committee be accepted and filed.

### DELINQUENT MEMBERS

No delinquent members were reported.

### RESIGNATIONS

No resignations were reported.

### MEMBERS NO LONGER AFFILIATED WITH LOCAL BOARDS

Mr. Philip W. Kniskern made the motion, which was duly seconded and passed, that a certain M.A.I., whose name was given, be advised at the close of the year that he would be retained as an inactive member until further action by the Council.

It was moved, seconded, and carried that four certain M.A I.'s, whose names were given, be advised of the By-Laws of the Institute in regard to the matter of membership in local boards and that they be given the information that they will be allowed a definite time within which they may straighten out the matter of their membership.

### REPORT OF THE TREASURER

The Report of the Treasurer, Mark Levy, was presented (as shown on page 80) and accepted by a unanimous vote.

### REPORT OF THE FINANCE COMMITTEE

Mr. Joseph B. Hall, Chairman of the Finance Committee, presented the report of his Committee, which was accepted and filed by a unanimous vote.

### OFFICE EQUIPMENT

There was discussion of the question of the American Institute of Real Estate Appraisers paying for certain office equipment. It was moved, seconded, and carried that the Treasurer be instructed to transfer these items to the account of the National Association of Real Estate Boards and that the Institute be credited accordingly.

### PRESIDENT'S STENOGRAPHIC EXPENSES

A motion was made by R. W. Patton, seconded by Maurice R. Massey, and unanimously carried that President Reidy be reimbursed in the amount of $150 for certain stenographic expenses.

### REPORT OF THE ADMISSIONS COMMITTEE

Mr. Ralph V. Field, Chairman of the Admissions Committee, stated that he would give his full report at the Friday morning session (November 20, 1936) of the Governing Council after all sessions of the Admissions Committee had been held.

The adoption of the Revised Regulations Governing Admissions was then discussed. It was moved, seconded, and unanimously carried that the Revised Regulations be adopted, printed, and mailed to all members.

It was moved, seconded, and unanimously carried that it be the general policy of the Institute not to give examinations to candidates for admission to membership until the applications of such candidates have been approved by the local chapters having jurisdiction over their respective territories.

### REPORT OF THE BY-LAWS COMMITTEE

Mr. Philip W. Kniskern, Chairman of the By-Laws Committee, presented the report of his Committee. Mr. Kniskern moved that no action be taken in respect to amending the By-Laws to provide that the term of office of the President be two years instead of one year. The motion was seconded and unanimously carried.

It was moved by Mr. Kniskern, seconded, and

## REPORT OF THE TREASURER

*Receipts and Budget Comparison*

| | Budgeted for 1936 | Budgeted for 1st 10 Months | Actual to Nov. 1, 1936 | Est. for Nov. & Dec. |
|---|---|---|---|---|
| Admission fee | $ 500.00 | $ 416.67 | $ 284.25 | |
| 1936 Affiliate dues | 945.84 | 788.20 | 1,008.33 | |
| 1935 Affiliate dues | | | 7.50 | |
| 1936 Associate dues | 335.00 | 279.16 | 121.83 | |
| 1936 Member dues | 6,333.61 | 5,278.00 | 6,101.14 | |
| 1936 Member Journal Sub. | 3,155.00 | 2,629.16 | 2,846.25 | |
| 1935 Member Journal Sub. | | | 5.00 | |
| 1936 Non-member Journal Sub. | 2,125.00 | 1,770.83 | 2,346.42 | |
| Sale of Reprints | | | 129.55 | |
| Sale of Forms | | | 55.00 | |
| Sale of Terminologies | 200.00 | 166.67 | 81.00 | |
| | $13,594.45 | $11,328.69 | $12,986.27 | |

*Disbursements and Budget Comparison*

| | Budgeted for 1936 | Budgeted for 1st 10 Months | Actual to Nov. 1, 1936 | Est. for Nov. & Dec. |
|---|---|---|---|---|
| Education and Research Committee | | | $ 307.73 | |
| Administrative services | $ 7,000.00 | $ 5,833.33 | 5,833.33 | $ 1,166.67 |
| Admissions fee account | 500.00 | 416.67 | 655.77 | 10.00 |
| Dues, Transfers, and Refunds | 100.00 | 83.33 | 120.00 | |
| Journals | 3,000.00 | 2,500.00 | 3,482.93 | |
| Miscellaneous | 500.00 | 416.67 | 502.23 | 10.00 |
| Postage | 300.00 | 250.00 | 508.53 | 25.00 |
| Printing and Stationery | 600.00 | 500.00 | 285.66 | |
| Travel | 500.00 | 416.67 | 472.31 | 150.00 |
| Terminology Reports | | | 60.11 | |
| Standard Forms | | | 97.00 | |
| President's office Expense | | | | 150.00 |
| | $12,500.00 | $10,416.67 | $12,325.60 | $ 1,511.67 |

| | |
|---|---|
| Excess of Receipts over Disbursements to November 1, 1936 | $ 660.67 |
| Less Funds transferred to Administrative Reserve | 1,166.67 |
| Operating Deficit | $ 506.00 |
| Plus Surplus as of January 1, 1936 | 3,954.97 |
| Available Cash November 1, 1936 | 3,448.97 |

*Summary*

| | |
|---|---|
| Cash and Certificate of Deposit | $ 6,207.85 |
| Less funds on deposit | 555.00 |
| Less 1937 and 1938 dues paid in 1936 | 138.75 |
| Less Administrative Reserve | 1,166.67 |
| Less Accounts Payable | 898.46 |
| | $ 3,448.97 |

unanimously carried that the following amendment to the By-Laws be adopted as Article VI, Section 8:

"ARTICLE VI, Section 8. It shall be the duty of every member of this Institute formally to notify the President of the Institute, in writing, of each and every instance coming to his attention where any Member or Associate Member of the Institute shall have appraised, testified, or otherwise publicly expressed an opinion of value of a property or properties where such opinion reflects professional misconduct or incompetence.

"The President of the Institute, upon receipt of such a notification, shall appoint an Investigation Committee, which may be the Disciplinary Committee, with instructions and power to make such investigations as may be deemed by it to be appropriate.

"The Investigation Committee shall: (1) Promptly notify, in writing, the member whose valuation has been so reported or whose valuation is to be investigated; (2) Advise the member involved that upon his request he may appear personally or otherwise before the Investigation Committee and before the Local Chapter, if affiliated with one, to present data and information supporting his position; (3) When the member involved is affiliated with a Local Chapter, forward a copy of said formal notification to the President of such Local Chapter and await the written report of the Local Chapter as hereinafter provided for; (4) When the member involved is *not* affiliated with a Local Chapter, proceed and conduct its own investigation; (5) When a Local Chapter does not submit its written report within the time limit hereinafter provided for, thereupon proceed and thereafter conduct its own investigation; (6) Receive and consider the written report of the Local Chapter and all other facts and information before it or uncovered by it; (7) Report in writing to the Governing Council of the Institute its findings, together with such recommendations as seem to it appropriate and consistent with the By-Laws and Rules of Professional Ethics of the Institute.

"The President of the Local Chapter, upon receipt of the copy of the formal written notification from the Investigation Committee, shall: (1) Cause appropriate investigation to be made; (2) Within not more than ninety days forward to the Investigation Committee a detailed written report of the investigation made, information and facts obtained, together with any suggestions deemed by the Local Chapter to be proper in the premises.

"All of the investigations provided for in this Section, together with any data, information, or other matters accumulated during such investigations or otherwise shall be held as strictly confidential by the Institute as well as by the Local Chapter."

### REPORT OF THE DISCIPLINARY COMMITTEE

In the absence of Mr. W. H. Ballard, the Chairman of the Disciplinary Committee, Mr. Harry Grant Atkinson read the report sent in by Mr. Ballard. A motion was made by Mr. Kniskern, seconded by Mr. J. B. Hall, and duly carried that the report be accepted and filed.

### REPORT OF THE LOCAL CHAPTERS COMMITTEE

Mr. E. L. Ostendorf, Chairman of the Local Chapters Committee, reported on the By-Laws of the Ohio Chapter. It was moved, seconded, and carried that the Amended By-Laws of the Ohio Chapter be approved and that a copy of this Chapter's By-Laws be sent to all Local Chapters. Upon a motion by Mr. Newton C. Farr, which was seconded by Mr. R. W. Patton and duly carried, the report of the Local Chapters Committee was approved.

### REPORT OF THE NOMINATING COMMITTEE FOR OFFICERS

The report of the Committee to Nominate Officers, consisting of Arthur C. Houghton, Chairman, W. H. Ballard, and Arthur S. Kirk, was presented to the members of the Governing Council by Mr. Houghton. The following were nominated:

President..........E. L. Ostendorf, Cleveland, Ohio.
Vice President, North Central Region..................
..............................K. Lee Hyder, Milwaukee, Wis.
Vice President, Southwest Region........................
..............George L. Schmutz, Los Angeles, Calif.
Vice President, New England Region..................
.............................Wm. H. Ballard, Boston, Mass.
Vice President, South Central Region..................
.............................Henry S. Miller, Dallas, Texas.
Vice President, Southeast Region..........................
...................J. Alvin Register, Jacksonville, Fla.
Vice President, Great Lakes Region....................
.....................George W. Drennan, Detroit, Mich.
Vice President, Central Atlantic Region............
.....................Frank M. McCurdy, Brooklyn, N. Y.
Vice President, Northwest Region........................
..........................Wm. A. Eastman, Seattle, Wash.

It was moved, seconded, and unanimously carried that the report of the Nominating Committee be accepted.

A motion for adjournment was made, seconded, and carried, and the meeting adjourned at 10:15 P. M.

## SECOND SESSION OF THE GOVERNING COUNCIL

The Governing Council of the American Institute of Real Estate Appraisers convened in Room C of the Roosevelt Hotel in New Orleans, Louisiana, on Tuesday, November 17, 1936. The meeting was called to order by President Maurice F. Reidy at 9:30 A. M.

### REPORT OF THE EDUCATION AND RESEARCH COMMITTEE

Mr. K. Lee Hyder, Chairman of the Education and Research Committee, presented a report on the results of the Appraisal Courses, the future of the Courses under the proposed National Real Estate Foundation, and the status of the Journal of the American Institute of Real Estate Appraisers. A general discussion followed the presentation of Mr. Hyder's report, during which he presented the proposed set-up of the Foundation.

A motion was made, seconded, and unanimously passed that the Education and Research Committee report be accepted, subject to any additions that the Committee may have after its meeting Tuesday afternoon, November 17, 1936.

Mr. K. Lee Hyder made the motion, which was seconded by Mr. Newton C. Farr and unanimously carried, that the Governing Council endorse and extend its cooperation to the broad plan of The National Real Estate Foundation for education and research, as now proposed by the National Association of Real Estate Boards, and that this endorsement be interpreted so that it shall in no way result in the loss of the identity of the American Institute of Real Estate Appraisers as an individual entity nor curtail such independent research and educational activities as it may desire to perform.

### REPORT OF THE COMMITTEE OF THE INTERNATIONAL FEDERATION OF SURVEYORS

Mr. Philip W. Kniskern, Chairman of the Representatives of the Permanent Committee of the International Federation of Surveyors, presented the situation in regard to the Institute's membership in the International Federation of Surveyors. It was moved, seconded, and passed that the Institute continue its membership in the Federation. Mr. Kniskern also reported that the Federation would have a meeting in 1938 and suggested that the Institute have representation at such meeting if possible. A motion was made by Mr. Joseph B. Hall, seconded, and unanimously carried that the report of the Committee be accepted.

### RESOLUTION IN REGARD TO THE APPOINTMENT OF ALTERNATES

Mr. Philip W. Kniskern suggested a resolution in regard to the appointment of alternates for members of the Governing Council and Committees who are unable to attend meetings. It was suggested that Mr. Kniskern refer the resolution to the By-Laws Committee and that it be prepared for proper presentation to the Governing Council at its meeting on Friday, November 20, 1936.

### ELECTION OF OFFICERS

It was moved, seconded, and unanimously carried that the following nominees, as presented by the Nominating Committee for Officers in its report to the Governing Council on Monday, November 16, 1936, be elected and that the Secretary be instructed to cast one vote for each:

President............E. L. Ostendorf, Cleveland, Ohio.
Vice President, North Central Region...............
.............................K. Lee Hyder, Milwaukee, Wis.
Vice President, Southwest Region.......................
..............George L. Schmutz, Los Angeles, Calif.
Vice President, New England Region.................
.............................Wm. H. Ballard, Boston, Mass.
Vice President, South Central Region.................
.............................Henry S. Miller, Dallas, Texas.
Vice President, Southeast Region........................
..................J. Alvin Register, Jacksonville, Fla.
Vice President, Great Lakes Region....................
.....................George W. Drennan, Detroit, Mich.
Vice President, Central Atlantic Region.............
.....................Frank M. McCurdy, Brooklyn, N. Y.
Vice President, Northwest Region........................
..........................Wm. A. Eastman, Seattle, Wash.

A motion for adjournment was then made, seconded, and carried, and the meeting adjourned at 12:00 o'clock noon.

## THIRD SESSION OF THE GOVERNING COUNCIL

The Governing Council of the American Institute of Real Estate Appraisers convened in Room A of the Roosevelt Hotel in New Orleans, Louisiana, on Friday, November 20, 1936. The meeting was called to order by President Maurice F. Reidy at 9:30 A. M.

### REPORT OF THE PUBLIC RELATIONS COMMITTEE

Mr. Maurice R. Massey presented the report of the Public Relations Committee in the absence of Mr. Ralph D. Baker, the Chairman of the Committee. Mr. R. W. Patton moved that the report be adopted. The motion was seconded and unanimously carried.

### PETITION FROM THE GOVERNING COUNCIL OF THE INSTITUTE OF FARM LAND BROKERS AND MANAGERS

Mr. Ralph V. Field presented the following petition from the Governing Council of the Institute of Farm Land Brokers and Managers:

"The Governing Council of the Institute of Farm Land Brokers and Managers in session in Room C of the Roosevelt Hotel in New Orleans, Louisiana, Wednesday afternoon, November 18, 1936, respectfully and unanimously petitions the Officers and Directors of the American Institute of Real Estate Appraisers to consider and adopt at this Convention the establishment of a farm-appraiser membership classification for members only of the Institute of Farm Land Brokers and Managers who may qualify through proper examination as to qualifications and ability to make such appraisals.

"We are moved to make such request through the many suggestions received from the farm loan agencies and the further fact that we know that this will build up and strengthen to a considerable degree the membership in the Institute of Farm Land Brokers and Managers, and this will furnish a constructive service which our Institute has thus far been unable to furnish.

Signed: George I. Huffman.
Chas. F. C. Ladd.
W. D. Davis.
D. K. Zimmermann.
W. A. Wakefield."

It was moved, seconded, and unanimously carried that this petition be referred to the By-Laws Committee. It was also suggested that the Membership Committee and the Education and Research Committee be furnished with a copy of the petition for study.

### CLASSIFICATION OF MEMBERSHIP

Considerable discussion followed in regard to the classes of membership in the American Institute of Real Estate Appraisers. Mr. Newton C. Farr presented the views of the Illinois Chapter with reference to this subject and suggested revisions to the By-Laws, stating that there should be only one form of membership with definite limitations in each class of appraising. The Illinois Chapter's decision rests upon the opinion that the membership requirements should depend upon three things, as follows: (1) A man's integrity; (2) A man's experience—at least fifteen years; (3) A man's technical training.

President Reidy suggested that Mr. Farr have his recommendations prepared for proper presentation to the Governing Council for action.

### REPORT OF THE ADMISSIONS COMMITTEE

Before Mr. Ralph V. Field, Chairman of the Admissions Committee, submitted his report, Mr. George W. Drennan made the motion that Mr. Arthur A. May, of Detroit, Michigan, be accepted for Associate Member Grade in the Institute. The motion was duly seconded and unanimously carried.

It was moved by Mr. Field, seconded by Mr. Hyder, and unanimously carried that the following candidates be elected to Member Grade in the Institute:

1. Lawrence Witherspoon, Little Rock, Ark.
2. Victor R. Lundy, San Diego, Calif.
3. G. LeRoy Kemp, Darien, Conn.
4. H. Martin Tenney, Hartford, Conn.
5. William G. Dunn, New Britain, Conn.
6. Parker Webb, Boston, Mass.
7. Donald D. James, Detroit, Mich.
8. Albert D. Mac Rae, Detroit, Mich.
9. Charles J. Pladwell, New York, N. Y.
10. Maurice R. Spear, New York, N. Y.
11. A. R. Ritzman, Akron, Ohio.
12. Henry B. Bunker, Cincinnati, Ohio.
13. J. M. Allen, Tulsa, Okla.
14. Elbert Cheek, Memphis, Tenn.
15. Emanuel E. Falk, Richmond, Va.
16. John J. Savage, Springfield, Ill.
17. Richard A. Muessel, South Bend, Ind.
18. E. H. Bideau, Omaha, Nebr.

It was moved by Mr. Field, seconded, and unanimously carried that the four applicants whose names were given be elected to Member Grade in the Institute subject to the completion of requirements as indicated.

Mr. Field made the motion that the Governing Council adopt the report of the Admissions Committee as presented with respect to thirty-four applicants upon whom action was deferred. The motion was duly seconded by Mr. McCurdy and unanimously carried.

Mr. Field made the motion, which was seconded by Mr. R. W. Patton and unanimously carried, that two Associate Members whose names were given be transferred from Associate to Member Grade subject to passing a satisfactory written examination.

Mr. Field moved that the action of the Admissions Committee have the support of the Governing Council in regard to certain rejections and withdrawals. The motion was duly seconded and unanimously carried.

### REPORT OF THE TAX PROCEDURE COMMITTEE

It was reported that the Tax Procedure Committee met in Room D of the Roosevelt Hotel in New Orleans on Tuesday evening, November 17, 1936, at 8:30 o'clock, and discussed matters of interest to the Committee but took no formal action and agreed upon no definite recommendations.

### Report of the Ethics Committee and the Special Committee for the Revision of the Rules of Professional Ethics

Mr. Frederick M. Babcock, Chairman of the Special Committee for the Revision of the Rules of Professional Ethics, presented a report proposing certain revisions in the Rules of Professional Ethics. This was followed by a general discussion.

Mr. Hyder moved that a special committee for the development of suggested Standards of Practice be appointed by the President, to be composed of at least seven members—these members to be drafted from those of the Institute who have served in an official capacity or who, in the judgment of the President, are particularly qualified to consider the matter—, such committee to be of a temporary character and to be limited to the laying down of certain value concepts and basic principles and standards to which the Institute may subscribe and upon which the ultimate Standards of Practice may be predicated. Mr. McCurdy seconded the motion, and it was unanimously carried.

Mr. R. W. Patton moved that the proposed revisions of the Rules of Professional Ethics be submitted to the general membership. The motion was duly seconded and carried.

### Title to Text Material

At this point President Reidy reported a proposed agreement which he had discussed with Herbert U. Nelson, under which it was contemplated that the Institute would transfer title to its Case-Study Text Material to the National Association of Real Estate Boards in exchange for a reimbursement of $1500, which the Institute had expended during the summer of 1936 in the preparation of text material for Real Estate Appraisal III and other collateral purposes. President Reidy asked Mr. Hyder to present his views on the matter. Mr. Hyder's statement was followed by a general discussion.

Mr. Newton C. Farr moved that the action of the President in proposing the surrender of title to the Case-Study Text Material of the Institute to the National Association of Real Estate Boards, in exchange for the $1500 and other credits, be approved. Mr. A. C. Houghton seconded the motion. Further discussion followed, after which the Council voted as follows: four affirmative votes; eight negative votes. The motion was defeated.

### Statement of Objects of the Institute in Appraisal Reports

Mr. Atkinson reported that a certain member of the Institute had asked permission to include a statement of the Objects of the American Institute of Real Estate Appraisers as set forth in the By-Laws under Article I, Section 1, in his appraisal reports to clients. It was moved, seconded, and unanimously carried that this request be denied.

### Proposed Amendments to the By-Laws

At this point Mr. R. W. Patton read the following recommendation by the By-Laws Committee:

"WHEREAS, Because of distance, business demands, or uncontrollable reasons, it often happens that members of the Governing Council or members of important committees cannot attend regularly called meetings of such bodies, and,

"WHEREAS, Such absences very often deprive the Institute of the benefit of the thought and desires of members in certain geographical locations, and similarly the members of the Institute in such geographical areas are deprived of knowledge of the reasoning back of policies and actions of these bodies of the Institute, now therefore,

"BE IT RESOLVED, That, effective immediately, any member of the Governing Council or any member of a regularly constituted committee of the Institute shall nominate an alternate whenever he finds himself unable to attend a regularly called meeting of the Council or of his particular committee. Such alternate, when approved by the President, and exhibiting proper credentials, shall enjoy all rights of his principal to attend meetings, participate in discussion, and otherwise, except that alternates may not vote.

"BE IT FURTHER RESOLVED, That the following amendment to the By-Laws be and hereby is approved to become effective upon the completion of the statutory publication to members.

"Add a new section to be known as Article VII, Section 4:

"Any member of the Governing Council or any member of a regularly constituted committee of this Institute shall nominate an Alternate to serve in his place whenever he finds himself unable to attend a regularly called meeting of the Council or of his committee. The nomination shall be made in writing, naming the Alternate and specifying the meetings to be covered; upon receipt by the Institute, this nomination will be referred to the President for consideration, and when approved by the President, it shall constitute proper credentials. Such Alternate upon presentation of these credentials shall enjoy all rights of his principal to attend meetings, participate in discussions, and otherwise, including the right to vote for his principal."

It was moved, seconded, and unanimously carried that the recommendation be submitted to the membership and brought before the Governing Council for action at its next meeting.

Mr. Newton C. Farr then presented the following proposed amendments to the By-Laws. It was moved, seconded, and unanimously carried that the same be referred to the By-Laws Committee.

"ARTICLE II, Section 1—To be amended to read as follows: 'Membership in the Institute shall be of one class.'

"ARTICLE II, Section 2—To be amended to read as follows: 'Membership is open to any individual. . . .'

"ARTICLE II, Section 2, Paragraph A—To be amended by substituting '32' in place of '30'.

"ARTICLE II, Section 2, Paragraph B—To be amended by substituting 'fifteen years' in place of 'eight years' in line five.

"ARTICLE II, Section 3—To be striken out.

"ARTICLE II, Section 4—To be stricken out.

"ARTICLE II, Section 5—To be amended to read as follows: 'No individual may be admitted to membership in the Institute. . . .'

"ARTICLE II, Section 6—To be stricken out.

"ARTICLE II, Section 10—To be amended to read as follows: 'Whenever a candidate seeks admission to membership in the Institute. . . .'

"ARTICLE III, Section 1—Strike out the words: 'and Associate Member.'

"ARTICLE III, Section 2—Strike out the words: 'or Associate Member.'

"ARTICLE IV, Section 1—Strike out the last part of the paragraph starting with 'Associate Members may. . . .'

"ARTICLE IV, Section 2—To be amended to read as follows: 'The designation "M.A.I." shall not be used. . . .'

"ARTICLE IV, Section 3—Strike out the words: 'and Associate Members may use the expression "Associate Member American Institute of Real Estate Appraisers of the National Association of Real Estate Boards."'

"ARTICLE V, Section 3—To be stricken out.

"ARTICLE V, Section 4—To be stricken out.

"ARTICLE V, Section 5—To be amended to read as follows: 'Each application for admission to membership shall be accompanied by a $5.00 examination fee, non-returnable.'

"ARTICLE VI, Section 7—Strike out the words: 'or Associate Member' in the first line."

A motion for adjournment was then introduced, which was seconded and unanimously carried. The meeting adjourned at 12:30 P. M.

## FIRST GENERAL SESSION OF THE INSTITUTE

The first General Session of the American Institute of Real Estate Appraisers was called to order at 2:00 P. M. on Wednesday, November 18, 1936, in the Dome Room of the Roosevelt Hotel in New Orleans, Louisiana, by President Maurice F. Reidy, of Worcester, Massachusetts.

President Reidy delivered an opening address and then introduced Mr. K. Lee Hyder, M.A.I., of Milwaukee, Wisconsin, who spoke on "Planning the Appraisal." Mr. Curt C. Mack, M.A.I., of St. Louis, Missouri, the second speaker on the program, discussed "The Selection and Weighing of Approaches to the Valuation Estimate."

Mr. Harry E. Gilbert, M.A.I., of Baltimore, Maryland, Chairman of the Nominating Committee for Governing Councillors of the American Institute of Real Estate Appraisers, reported the nominations.

## SECOND GENERAL SESSION OF THE INSTITUTE

The second General Session of the American Institute of Real Estate Appraisers was called to order at 9:45 A. M. on Thursday, November 19, 1936, in the Dome Room of the Roosevelt Hotel in New Orleans, Louisiana, by President Maurice F. Reidy.

President Reidy introduced the first speaker of the program, Mr. Ralph V. Field, M.A.I., of Galesburg, Illinois, who spoke on the subject "The Data Program." Following Mr. Field's address, Mr. Ayers J. du Bois, M.A.I., of Washington, D. C., was introduced by President Reidy. Mr. du Bois presented an address on "Residual Processes."

The following were unanimously elected to serve as members of the Governing Council:

FOR THE TERM EXPIRING DECEMBER 31, 1939

E. L. Ostendorf, Cleveland, Ohio.
K. Lee Hyder, Milwaukee, Wisconsin.
Frank McLaughlin, Toronto, Ontario.
Frederick M. Babcock, Washington, D. C.
John R. Hoyt, New York, New York.
Morton G. Thalhimer, Richmond, Virginia.

Lewis C. Sholes, Omaha, Nebraska.
John B. Green, St. Petersburg, Florida.

FOR THE TERM EXPIRING DECEMBER 31, 1938

James W. Cree, Jr., Pittsburgh, Pennsylvania. (To fill the unexpired term of President Maurice F. Reidy, who becomes an Ex-Officio Member of the Governing Council.)

President Reidy spoke on the ethics of appraisers and then read the proposed amendment to the By-Laws which had been unanimously passed by the Governing Council at its meeting on November 16, 1936. President Reidy also read the proposed amendment to the By-Laws relating to alternates, which was to come before the Governing Council for action at the Friday session, November 20, 1936.

## THIRD GENERAL SESSION OF THE INSTITUTE

The third General Session of the American Institute of Real Estate Appraisers was called to order at 2:30 P. M. on Friday, November 20, 1936, in the Blue Room of the Roosevelt Hotel in New Orleans, Louisiana, by President Maurice F. Reidy. Mr. Maurice R. Massey, of Philadelphia, presided during the session.

Mr. Harry S. Cutmore, M.A.I., of Chicago, Illinois, spoke on the subject "Rehabilitation Estimates." Mr. John R. Hoyt, M.A.I., of New York City, presented a paper by Mr. S. E. Kazdin, M.A.I., also of New York City, on the subject "A Formula for Valuating Guaranteed Mortgages," and Mr. Herman O. Walther, M.A.I., of Chicago, Illinois, talked on the subject "Correlation of Data and the Value Estimate."

* * *

# New Members

## ADMITTED TO THE GRADE OF MEMBER

LAWRENCE WITHERSPOON, LITTLE ROCK, ARKANSAS. Born Hope, Arkansas, June, 1896; Fee Appraiser for H.O.L.C.; Fee Appraiser for the Jefferson Standard Life Insurance Company; Fee Inspector for H.O.L.C.; Fee Appraiser for Durham & Herrick; appraisals for other lending institutions and individuals; general contractor; associate member of Little Rock Real Estate Board; professional territory covers the state of Arkansas; fifteen years' experience in general real estate and general contracting business; appraisal experience extends over a period of seventeen years, including homes, apartments, stores, industrial property, farms, and special purpose property; qualified in court as an expert on the value of business and residential property; licensed real estate broker.

VICTOR R. LUNDY, SAN DIEGO, CALIFORNIA. Born in Portland, Oregon, June, 1896; associate membership in the San Diego Realty Board; professional territory covers San Diego County; author of Appraisal Handbook issued by the San Diego Realty Board; A.B. degree from the University of Calif., 1920; appraisal courses under the instruction of Thurston H. Ross, George L. Schmutz, L. O. McCormick, and Ivan Thorson and other appraisal courses sponsored by the San Diego Realty Board; member, San Diego Realty Board appraisal committee for eight years; instructor in appraising San Diego Realty Board appraisal class for three years; twelve years' experience in the appraising of real property, including hotels, stores, vacant garages, and residential properties; licensed Real Estate Broker in California since 1926; qualified in court as an expert on real estate values, investment and non-investment, foreclosure suits, distribution of estates, damage claims; has appraised for the New World Life Insurance Co., the Union Title & Trust Co., and the Home Federal Savings & Loan Association; sales experience covers a period of about twelve years.

G. LEROY KEMP, DARIEN, CONN. Born Darien, Conn., 1900; President, G. LeRoy Kemp Co., Inc.; offices at Darien, Westport, Fleetwood, and New York; professional territory covers Fairfield County, Conn., and Westchester County, New York; active member of Real Estate Board of Darien, Conn.; fifteen years' experience in the appraising of real property, including the valuation of residential property, land, business, and farms; licensed Real Estate Broker in the state of New York; qualified in court as expert on real estate values in all kinds of real estate; has appraised for Prudential Insurance Co., Home Life Insurance Co., Fidelity Title Co., Title Insurance and Mortgage Co., and other financial institutions; fifteen years' experience in residential sales.

H. MARTIN TENNEY, HARTFORD, CONNECTICUT. Born in Keene, New Hampshire, March, 1898; Assistant Supervisor of City Loans, Connecticut Mutual Life Insurance Company, Hartford, Connecticut; Director, Greene County Building Company, Springfield, Missouri; during last five years has been chairman or member of twenty-three Bondholders Protection Committees; member of the Hartford, Connecticut, Real Estate Board; professional territory covers a considerable part of the United States; educational preparation includes courses in Boston University and in Babson Institute; thirteen years with the First National Company in St. Louis, Missouri; twelve years' experience in the appraising of real property, including the value of store properties, apartment buildings, office buildings, and hotels; has appraised property for the State Mutual Life Assurance Company of Worcester, Massachusetts, The Connecticut Mutual Life Insurance Co. of Hartford, Connecticut, the First National Co. of St. Louis, Missouri, and the First National Bank of St. Louis, Missouri; for a number of years handled all details in connection with construction loans—analysis of plans and specifications and supervision of disbursements; during college years worked for a general contractor; has had experience in the supervision of residential sales.

WILLIAM G. DUNN, NEW BRITAIN, CONN. Born in New Britain, Connecticut, March, 1883; active member, New Britain Real Estate Board; professional territory covers New Britain and vicinity; twenty-two years' experience in the appraising of real estate, including the valuations of dwellings, business properties, and vacant properties; qualified in court as an expert on the value of business property in 1913; has appraised for Prudential Life Insurance Co., the Savings Bank of New Britain, the New Britain Trust Company, and the New Britain National Bank; has charge of $1,250,000 worth of real estate in New Britain, Connecticut, and superintends all repairs; twenty-seven years' experience in residential sales.

JOHN J. SAVAGE, SPRINGFIELD, ILLINOIS. Born in Lincoln, Illinois, February, 1906; Staff Valuator, Southern District of Illinois Federal Housing Administration; professional territory covers eighty-six counties in Southern Illinois; individual member, National Association of Real Estate Boards; City Treasurer in Lincoln, Ill., 1931 to 1933; fee and district appraiser for Home Owners' Loan Corp. 1933 to 1935; taught appraisal courses for Springfield Chapter of U. S. Building & Loan League in the spring of 1935; eleven years' experience in real estate appraising, including the valuation of stores, office buildings, apartment buildings, and single family dwellings; partner in the Dean J. Harris Agency; qualified in court as an expert in the valuation of residential property in 1933; has appraised for The First National Bank, Lincoln, Illinois, for the Lincoln Savings & Loan Association, and the Logan County Building and Loan Association; eight years' experience in residential sales.

RICHARD A. MUESSEL, SOUTH BEND, INDIANA. Born in South Bend, Indiana, March, 1894; real estate broker operating under the name of Richard A. Muessel; property manager for the Prudential Insurance Company in South Bend and Mishawaka; member, South Bend-Mishawaka Real Estate Board; professional territory covers South Bend and vicinity; graduate of University of Illinois; seven years' experience in the appraising of real property, including farms, homes, and commercial properties; qualified in Court on the values of industrial, commercial, residential, and farm properties; has appraised properties for the American Trust Co., St. Joseph Loan and Trust Co., Citizens Loan & Trust Co., Bldg. and Loan Association of South Bend, St. Joseph Bldg. & Loan Association, South Bend Federal Savings and Loan, all of South Bend; has had experience since 1928 in remodeling and reconditioning of private dwellings; eight years' experience in residential sales.

PARKER WEBB, BOSTON, MASS. Born Lewiston, Maine, June, 1881; Executive Committee Member and former Chairman of the Brokers Division of the National Association of Real Estate Boards; active member of the Boston Real Estate Exchange; professional territory covers New England and all the state of New York outside of Manhattan; lecturer and author; thirty-three years in real estate business; more than fifteen years in the appraising of general property, including the valuation of theaters, retail stores, leases, etc.; licensed Real Estate Broker in the state of New York since 1925.

DONALD D. JAMES, DETROIT, MICHIGAN. Born in Detroit, Michigan, August, 1886; President, Birmingham Forest Land Company; President of Walsh, James & Wasey Company; Vice-President, Detroit Real Estate Board; President, Brookside Hills Land Co.; Vice-President, Bloomfield Hills Investment Co.; President, James Investment Co.; Chairman, Brokers Division, Detroit Real Estate Board; active member, Detroit Real Estate Board; professional territory covers Wayne and Oakland Counties; Mayor of City of Bloomfield Hills for term of two and one-half years; member of Board of Supervisors of Oakland County for term of two and one-half years; eighteen years' experience in the appraising of real estate, including the values of all types of real estate found in metropolitan areas; qualified in court as an expert on the value of acreage property; has appraised for the Equitable Life Assurance Society, Michigan Mutual Liability Co., the Provident Trust Co., and other financial institutions; twenty-five years' experience in residential sales.

ALBERT D. MAC RAE, DETROIT, MICHIGAN. Born Glencoe, Ontario, Canada, 1887; real estate analyst, appraiser, and member of the Real Estate Committee of the Union Guardian Trust Company; real estate analyst and appraiser for H. G. Woodruff, Inc.; broker member of the Detroit Real Estate Board; professional territory covers state of Michigan; twenty years' experience in the appraisal of real property; qualified in court as an expert on the value of various types of real estate; has appraised for the Metropolitan Life Insurance Company, The Guardian Life Insurance Company, The Life Insurance Company of Virginia, The Canada Life Assurance Company, The North American Life Insurance Company, The John Hancock Mutual Life Insurance Company, The Missouri State Life Insurance Company, The Ohio State Life Isurance Company, The Union Central Life Insurance Company, The Midland Mutual Life Insurance Company, The Sales Estate and Kilburn Land Company, The Central West Casualty Company, The Detroit Life Insurance Company, and others; extensive experience in building construction.

E. H. BIDEAU, OMAHA, NEBRASKA. Born Buffalo, Kansas, 1898; Regional Appraiser for Home Owners' Loan Corporation; owner, E. H. Bideau Real Estate & Loan Agency, Chanute, Kansas; Director, Chanute Building & Investment Company; individual member, National Association of Real Estate Boards; professional territory covers the states of Colorado, Iowa, Kansas, Minnesota, Nebraska, North Dakota, and South Dakota; one year's work in Northwestern University, plus creditable ratings in the Institute's Case-Study Courses I and II; eighteen years' experience in real property, including the valuation of homes, apartments, stores; qualified in court as an expert on the value of urban properties; has appraised for the Humphrey Investment Company, the Union Central Life Insurance Company, the Commerce Trust Company, the State Savings & Loan Association, and other financial institutions; has supervised the construction of residences and business properties; eighteen years' experience in residential sales.

CHARLES J. PLADWELL, NEW YORK, NEW YORK. Born Brooklyn, New York, July, 1877; associate member of Brooklyn Real Estate Board; professional territory covers Eastern States and Middle West States; thirty-five years' experience in the appraisal of real property, including the valuation of residential property, business property, lofts, factories, garages, etc.; twenty years' experience in appraisals for the Title Guarantee and Trust Company of Brooklyn, New York; Home Office Appraiser for the Equitable Life Assurance Society, in the Mortgage Loan and Real Estate Department, since January 1, 1927; during the period from 1927 to 1932 supervised all State Loans made by the Equitable in forty-seven states; since 1932 appraisal work has been confined to Metropolitan New York.

MAURICE R. SPEAR, NEW YORK CITY. Born in New York City, December, 1889; President, Spear & Co., Inc.; renting and managing agents of properties upwards to $100,000,000; member, Real Estate Board of the Bronx, Inc ; author and lecturer; more than ten years' experience in appraising real estate, including the appraising of office buildings and loft buildings; Licensed Real Estate Broker, State of New York; qualified in court as an expert on the values of improved real estate; has appraised for the Metropolitan Life Insurance Co., Equitable Life Assurance Society, Guaranty Trust, Lawyers County, and New York Title; extensive experience in building and construction.

A. R. RITZMAN, AKRON, OHIO. Born Akron, Ohio, 1887; President, The Heminger-Ritzman Company; Past President, Akron Real Estate Board (1926); Chairman, Appraisal Committee, Akron Real Estate Board, 1927-1929; President, Ohio Real Estate Association, 1936; member, Akron Real Estate Board; professional territory covers state of Ohio; eight years Treasurer and Trust Officer of Commercial Bank & Trust Company, Akron, Ohio; twelve years head of the Heminger-Ritzman Company; lecturer and teacher; licensed real estate broker 1927 to date; qualified in court as an expert on real estate value since 1924 on all types of property; twenty years' residential sales experience; appraisal experience includes homes, apartments, stores, industrial, commercial, and special purpose property.

HENRY B. BUNKER, CINCINNATI, OHIO. Born in Cincinnati, Ohio, 1898; Real Estate Officer of The Central Trust Company of Cincinnati; Grade "A" member of the Cincinnati Real Estate Board; professional territory covers Cincinnati and the surrounding territory; A.B. degree Xavier University; ten years' experience in real estate appraising; licensed real estate broker; has appraised for the Metropolitan Life Insurance Company and other financial institutions; six years' experience in residential sales, four years of which were with the Frederick A. Schmidt Company, of Cincinnati, as assistant to Walter S. Schmidt, President of the Frederick A. Schmidt Company, and two years as Director of Management for the Schmidt Company.

J. M. ALLEN, TULSA, OKLAHOMA. Born in Fulton, Arkansas, in 1886; President, Allen & Scott, Inc.; Manager of the Real Estate Department, National Bank of Tulsa; affiliated with Tulsa Real Estate Board; professional territory covers the state of Oklahoma; studied in the Hope High School, Hope, Arkansas, Tyler Commercial College, Tyler, Texas, the University of Tulsa (special night courses), and the Institute's Case-Study Courses at the University of Chicago; fifteen years' experience in the appraisal of real property, including the valuation of business property, hotels, apartments, garages, office buildings, industrial property, and residences; qualified in court as an expert on industrial property; has appraised all types of property for the National Bank of Tulsa; has appraised apartments and business properties for the Reconstruction Finance Corporation; eleven years' experience in the hardware business; one year's experience in concrete tank construction; assisted in the erection of ten one-story brick buildings; eighteen years' experience in residential sales.

ELBERT A. CHEEK, MEMPHIS, TENNESSEE. Born Arcola, Mississippi, 1900; Mortgage Loan Inspector. associated with the Equitable Life Assurance Society of the United States; associate member of the Memphis Real Estate

Board; professional territory covers Arkansas, Louisiana, and Mississippi; B.S. degree, University of Alabama; six years' experience in the appraising of real property; licensed real estate salesman in Tennessee from 1929 to 1934; has appraised all types of real estate, except farms, for the Equitable Life Assurance Society.

EMANUEL E. FALK, RICHMOND, VIRGINIA. Born Newport News, Virginia, 1904; Salesman, Morton G. Thalhimer, Inc.; associate member of the Richmond Real Estate Exchange; professional territory covers Virginia, North Carolina, and West Virginia; two years of academic training in the University of Virginia; ten years' experience in the appraising of real property, including stores, office buildings, vacant lots, and residential property; ten years' experience in residential sales.

FRANK H. MASSEY, PHILADELPHIA, PENNSYLVANIA. Born in Philadelphia, Pennsylvania, July, 1867; in business under the name of J. R. Massey & Son; active member of the Philadelphia Real Estate Board; professional territory covers Philadelphia and suburban counties of Delaware, Chester, Bucks, and Montgomery; forty-five years' experience in the appraisal of real property, including types found in typically metropolitan areas; qualified in court as an expert on the values of properties of all types through the last thirty-five years; residential sales experience covers a period of approximately fifty years; has appraised properties for the Prudential Insurance Company, Equitable Life Assurance Society, New York Life, Penn Mutual, and other financial institutions.

JAMES P. CLARK, BROOKLYN, NEW YORK. Born New York City, February, 1897; proprietor of J. P. Clark Company; President and Treasurer of Meeker Contracting Company, Inc.; Vice-President of Cluster Realty Company, Inc. and of Rexford Realty Company, Inc.; member of the Realty Advisory Committee of New York World's Fair, 1939; member of the Board of Housing of the State of New York; active member of the Brooklyn Real Estate Board; professional territory covers the Burroughs of Brooklyn and Queens and New York City; completed two years at the Brooklyn Law School and three and one-half years in civil engineering at New York University; was enrolled as a student in Case-Study Courses II and III offered by the Institute at the University of Chicago in 1935 and 1936; ten years' experience in the appraisal of real property, including the valuation of homes, apartments, stores, office buildings, and industrial property; licensed real estate broker in the state of New York since 1922; qualified in court as an expert on the value of homes, apartments, metropolitan business property, garages, and factories; has appraised for the Bushwick Savings Bank; has erected garages, factory buildings, and one and two-family dwellings since 1925; twenty years' experience in residential sales.

PRESTON COOKE, COLUMBUS, OHIO. Born Columbus, Ohio, September, 1906; member of firm of Demmie P. Cooke & Company (established 1876); Loan Correspondent, Aetna Life Company; Vice-President of the M.C.M. Realty Company (a building company); Secretary and Treasurer of the College Realty Company (a holding company); active member of the Columbus Real Estate Board; professional territory covers Central Ohio; graduate of the Columbus High School and of Denison University; has completed six weeks' Case-Study Appraisal Courses offered by the Institute at the University of Chicago in 1936; eight years' experience in the appraising of real property, including the appraisal of homes, vacant lots, filling stations, retail business properties, farms, and industrial properties; has appraised for the Aetna Life Insurance Company, the Standard Savings and Loan Company, the City National Bank and Trust Company, the Union National Life Insurance Company, the Cooperative Life Insurance Company of America, and other institutional and private clients; eight years' experience in the selling of real estate in central Ohio.

E. HERBERT GILG, N.S. PITTSBURGH, PENNSYLVANIA. Born Pittsburgh, Pennsylvania, March, 1890; Salesman for North Side Real Estate Company; Appraiser for Realty Appraisals Company; Fee Appraiser for the Home Owners' Loan Corporation; Vice-President, Pennsylvania Real Estate Association, 1936; Past President, Pittsburgh Real Estate Board; professional territory covers Allegheny County; B.A. degree, Carnegie Institute of Technology; attended Institute's Case-Study Courses II and III, 1936; substitute teaching for Thomas C. McMahon, Appraisal Course, Building & Loan League, Pittsburgh; ten years' experience in the appraisal of real property; licensed real estate broker; qualified in court as an expert on the value of residential, mercantile, and industrial properties; has appraised for Allegheny County, Westinghouse Airbrake Company, Standard Life Insurance Company, Pittsburgh, Philadelphia Company, Pittsburgh, Pittsburgh Real Estate Board, Estate of George E. Meyer, Estate of F. L. Falck, Keystone Hotel Corporation, and State Workmen's Insurance Fund of Pennsylvania; seventeen years' experience in residential sales; appraisal experience covers residential, industrial, apartment, commercial, warehouse, and other types of property.

HERBERT B. PATT, KANSAS CITY, MISSOURI. Born Kansas City, Missouri, July, 1902; Secretary and Treasurer of the Patt Investment Company; Secretary of Mortgage Dealers Division of the Kansas City Real Estate Board; professional territory, Kansas City, Missouri; Bachelor of Science degree from Princeton University in 1924; twelve years' experience in the valuation of residences, apartments, and business properties; licensed real estate broker; qualified in court in 1936 as an expert on the value of apartments and business properties; has appraised for the State Mutual Life Assurance Company, the Midland Life Insurance Company, and other institutions; ten years in residential sales.

## ADMITTED TO ASSOCIATE MEMBER GRADE

ARTHUR A. MAY, DETROIT, MICHIGAN. Born in Detroit, Michigan, in January, 1893; Vice-President, Scratch, May & Canavan, Real Estate valuators; Assistant District Appraiser, Home Owners' Loan Corporation; professional territory covers metropolitan Detroit; active member, Detroit Real Estate Board; author, lecturer, and teacher; qualified in Supreme Court of the Province of Ontario as an appraiser of real property for the purpose of fixing inheritance taxes; ten years' experience in the appraisal of real estate, including the valuation of homes, stores, farms, and apartment buildings.

* * *

# American Institute of Real Estate Appraisers

E. L. OSTENDORF..........President
610 National City Bank Building, Cleveland, Ohio
K. LEE HYDER..........Vice President
North Central Region
525 East Michigan Street, Milwaukee, Wisconsin
GEORGE L. SCHMUTZ..........Vice President
Southwest Region
8703 Santa Monica Boulevard, Los Angeles, Calif.
WM. H. BALLARD..........Vice President
New England Region
45 Milk Street, Boston, Massachusetts
HENRY S. MILLER..........Vice President
South Central Region
405 Southland Life Building, Dallas, Texas
J. ALVIN REGISTER..........Vice President
Southeast Region
114 Graham Building, Jacksonville, Florida
GEORGE W. DRENNAN..........Vice President
Great Lakes Region
300 Penobscot Building, Detroit, Michigan
FRANK M. Mc CURDY..........Vice President
Central Atlantic Region
158 Remsen Street, Brooklyn, New York
WM. A. EASTMAN..........Vice President
Northwest Region
414 University Street, Seattle, Washington

## Governing Council

### Term Expiring December 31, 1939

E. L. Ostendorf, Cleveland, Ohio
K. Lee Hyder, Milwaukee, Wisconsin
Frank McLaughlin, Toronto, Ontario
Frederick M. Babcock, Washington, D. C.
John R. Hoyt, New York, New York
Morton G. Thalhimer, Richmond, Virginia
Lewis C. Sholes, Omaha, Nebraska
John B. Green, St. Petersburg, Florida

### Term Expiring December 31, 1938

James W. Cree, Jr., Pittsburgh, Pennsylvania
J. Alvin Register, Jacksonville, Florida
George L. Schmutz, Los Angeles, California
Ralph V. Field, Galesburg, Illinois
Newton C. Farr, Chicago, Illinois
George W. Drennan, Detroit, Michigan
Henry S. Miller, Dallas, Texas
Maurice R. Massey, Philadelphia, Pennsylvania
Frank M. Mc Curdy, Brooklyn, New York

### Term Expiring December 31, 1937

A. C. Houghton, Washington, D. C.
Wm. H. Ballard, Boston, Massachusetts
Hill Ferguson, Birmingham, Alabama
Arthur S. Kirk, Des Moines, Iowa
Ralph D. Baker, Camden, New Jersey
R. W. Patton, San Antonio, Texas
Wm. A. Eastman, Seattle, Washington
Edward Eagan, Syracuse, New York
James J. Grogan, Cincinnati, Ohio

### Ex-Officio Members

Maurice F. Reidy, Worcester, Massachusetts
Harry E. Gilbert, Baltimore, Maryland
Joseph B. Hall, St. Louis, Missouri
Philip W. Kniskern, Philadelphia, Pennsylvania
Mark Levy, Chicago, Illinois

**Representing Board of Directors, N.A.R.E.B.**
Joseph Laronge, Cleveland, Ohio

# Officers of Local Chapters

### New Jersey Chapter Number 1

President—Edward J. Maier, Newark
Vice President—William W. Chalmers, Camden
Treasurer—John K. Leeds, Elizabeth
Secretary—Franklin J. Hannoch, Newark

### Florida Chapter Number 2

President—John B. Green, St. Petersburg
Vice President—Adrian Mc Cune, Miami
Treasurer—Frank J. Anderson, West Palm Beach
Secretary—Harry J. Wood, Fort Myers

### Ohio Chapter Number 3

President—Howard W. Etchen, Toledo
Vice President—Warren L. Morris, Cleveland
Treasurer—Albert J. Mayer, Cincinnati
Secretary—Rufus Lisle, Dayton

### New York City Chapter Number 4

President—John R. Hoyt, Manhattan
Vice President—Wm. F. Mac Dermott, Jamaica
Vice President—George H. Gray, Brooklyn
Vice President—Irving I. Rosenbaum, Manhattan
Treasurer—Edward C. Heald, Yonkers
Secretary—Dalton G. DeWitt, Manhattan

### California Chapter Number 5

President—Charles B. Shattuck, Los Angeles
Vice President—Thomas F. Mason, Wilmington
Secretary and Treasurer—John W. Salmon, Los Angeles

### Illinois Chapter Number 6

President—Newton C. Farr, Chicago
Vice President—Leo Dailey, Waukegan
Treasurer—Isaac Keim, Chicago
Secretary—Henry George Slavik, Chicago

### New England Chapter Number 7

President—Charles T. Lincoln, New Haven, Conn.
Vice President—John C. Kiley, Boston, Mass.
Secretary and Treasurer—Everett N. Slade, Fall River, Mass.

### Washington State Chapter Number 8

President—Walter G. McLean, Seattle
Vice President—J. C. McQuigg, Seattle
Secretary and Treasurer—J. H. Sparkman, Seattle

### Philadelphia Chapter Number 9

President—Philip W. Kniskern, Philadelphia
Vice President—Frank P. Felton, Jr., Philadelphia
Vice President—Robert J. Nash, Philadelphia
Treasurer—C. Harry Johnson, Philadelphia
Secretary—S. Craig Kane, Jr., Philadelphia

### Michigan Chapter Number 10

President—Henry N. Johnson, Detroit
Vice President—Charles H. Warden, Grand Rapids
Secretary and Treasurer—George C. Sexauer, Detroit

# Committees

## Standing Committees

(See pages 95 to 99, Roster of Members, for addresses.)

### ADMISSIONS COMMITTEE

Ralph V. Field, Galesburg, Ill., General Chairman
Herman O. Walther, Chicago, Ill., Chairman, Examination Committee
Warren L. Morris, Cleveland, O., Chairman, Appraisal Report Committee
C. F. Curry, Kansas City, Mo.
Frank P. Felton, Jr., Philadelphia, Penn.
Hill Ferguson, Birmingham, Ala.
Morris Goldfarb, Perth Amboy, N. J.
Bracton Goldstone, New York, N. Y.
James J. Grogan, Cincinnati, O.
John R. Hoyt, New York, N. Y.
Henry S. Miller, Dallas, Tex.
A. C. Newell, Seattle, Wash.
C. Walton Rex, Orlando, Fla.
John W. Roberts, Indianapolis, Ind.
Paul F. Semonin, Sr., Louisville, Ky.
George C. Sexauer, Detroit, Mich.
Charles B. Shattuck, Los Angeles, Calif.
Everett N. Slade, Fall River, Mass.
J. Frederick Sutherland, Minneapolis, Minn.

### BY-LAWS COMMITTEE

Ralph D. Baker, Camden, N. J., Chairman
Chester A. Dougherty, St. Louis, Mo.
Arthur B. Hall, Chicago, Ill.
Joseph Laronge, Cleveland, O.
Edward J. Maier, Newark, N. J.
T. F. Merrick, Long Beach, Calif.
J. Alvin Register, Jacksonville, Fla.

### DISCIPLINARY COMMITTEE

George W. Drennan, Detroit, Mich., Chairman
Graham Aldis, Chicago, Ill.
William W. Chalmers, Camden, N. J.
J. Mortimer Clark, Long Beach, Calif.
Charles J. Daly, St. Louis, Mo.
Wm. F. Mac Dermott, Jamaica, N. Y.
Harry E. Gilbert, Baltimore, Md.
John M. Hutchinson, Waterbury, Conn.
P. Lincoln Mitchell, Cincinnati, O.
R. W. Patton, San Antonio, Tex.

### EDUCATION AND RESEARCH COMMITTEE

K. Lee Hyder, Milwaukee, Wis., General Chairman

#### Sub-committee on Research

Thurston H. Ross, Los Angeles, Calif., Chairman
Frederick M. Babcock, Washington, D. C.
Frank D. Hall, New York, N. Y.
Philip W. Kniskern, Philadelphia, Penn.
Cuthbert E. Reeves, Buffalo, N. Y.

#### Sub-committee on Education

George L. Schmutz, Los Angeles, Calif., Chairman
Frederick A. Bond, Philadelphia, Penn.
W. G. Burchfield, Houston, Tex.
Fred L. Chapman, Minneapolis, Minn.
Raymond T. Cragin, Cleveland, O.
Harry S. Cutmore, Chicago, Ill.
Leonard Downie, Washington, D. C.
Ayers J. du Bois, Washington, D. C.
Ralph V. Field, Galesburg, Ill.
Victor J. Free, Cleveland, O.
John B. Green, St. Petersburg, Fla.
Curt C. Mack, St. Louis, Mo.
Edward J. Maier, Newark, N. J.
Isidoro Quintana, Hackensack, N. J.
John B. Spilker, Cincinnati, O.
Morton G. Thalhimer, Richmond, Va.
Ivan A. Thorson, Los Angeles, Calif.
Herman O. Walther, Chicago, Ill.

### ETHICS COMMITTEE

Newton C. Farr, Chicago, Ill., Chairman
Frederick M. Babcock, Washington, D. C.
Charles P. Glover, Tampa, Fla.
George H. Gray, Brooklyn, N. Y.
Peter Hanson, Glendale, Calif.
Arthur C. Houghton, Washington, D. C.
Henry N. Johnson, Detroit, Mich.
Charles T. Lincoln, New Haven, Conn.
Norman L. Newhall, Minneapolis, Minn.
Frank H. Taylor, East Orange, N. J.

### FINANCE COMMITTEE

Wm. H. Ballard, Boston, Mass., Chairman
J. W. Cree, Jr., Pittsburgh, Penn.
Joseph B. Hall, St. Louis, Mo.
Clyde A. King, Tulsa, Okla.
Mark Levy, Chicago, Ill.

### LOCAL CHAPTERS COMMITTEE

John R. Hoyt, New York, N. Y., Chairman
Talmage D. Auble, Cleveland, O.
Henry M. Clark, Springfield, Mass.
Wm. A. Eastman, Seattle, Wash.
Harry Goldstine, Chicago, Ill.
Joseph W. Hannauer, St. Louis, Mo.
Henry N. Johnson, Detroit, Mich.
Arthur S. Kirk, Des Moines, Iowa
George A. Kuhn, Indianapolis, Ind.
Nathan H. Libott, Los Angeles, Calif.
Edward J. Maier, Newark, N. J.
J. W. Pat Murphy, Dallas, Tex.
Robert J. Nash, Philadelphia, Penn.
D. Earl Wilson, Miami, Fla.
Harry J. Wood, Fort Myers, Fla.

### MEMBERSHIP COMMITTEE

Philip W. Kniskern, Philadelphia, Penn., Chairman
Wm. H. Ballard, Boston, Mass.
George W. Drennan, Detroit, Mich.
Wm. A. Eastman, Seattle, Wash.
K. Lee Hyder, Milwaukee, Wis.
Frank M. McCurdy, Brooklyn, N. Y.
Henry S. Miller, Dallas, Tex.
J. Alvin Register, Jacksonville, Fla.
George L. Schmutz, Los Angeles, Calif.

### PUBLIC RELATIONS COMMITTEE

Arthur C. Houghton, Washington, D. C., Chairman
Ralph D. Baker, Camden, N. J.
Howard W. Etchen, Toledo, O.
Newton C. Farr, Chicago, Ill.
John B. Green, St. Petersburg, Fla.
John R. Hoyt, New York, N. Y.
Henry N. Johnson, Detroit, Mich.
Philip W. Kniskern, Philadelphia, Penn.
Charles T. Lincoln, New Haven, Conn.
Edward J. Maier, Newark, N. J.
Walter G. McLean, Seattle, Wash.
Charles B. Shattuck, Los Angeles, Calif.
Edwin L. Somerville, Minneapolis, Minn.

### REPRESENTATIVES ON THE PERMANENT COMMITTEE OF THE INTERNATIONAL FEDERATION OF SURVEYORS

Philip W. Kniskern, Philadelphia, Penn., Chairman
Harry E. Gilbert, Baltimore, Md.
Arthur C. Houghton, Washington, D. C.
E. L. Ostendorf, Cleveland, O.
Maurice F. Reidy, Worcester, Mass.

# Special Committees

## COMMITTEE TO NOMINATE GOVERNING COUNCILLORS

Maurice F. Reidy, Worcester, Mass., Chairman
J. Mortimer Clark, Long Beach, Calif.
Joseph W. Hannauer, St. Louis, Mo.
Maurice R. Massey, Philadelphia, Penn.
Leonard P. Reaume, Detroit, Mich.
C. Walton Rex, Orlando, Fla.
Morton G. Thalhimer, Richmond, Va.

## COMMITTEE TO NOMINATE OFFICERS

Joseph B. Hall, St. Louis, Mo., Chairman
Harry E. Gilbert, Baltimore, Md.
George L. Schmutz, Los Angeles, Calif.

## TAX PROCEDURE COMMITTEE

Warren L. Morris, Cleveland, O., Chairman
Harry S. Cutmore, Chicago, Ill.
Harry E. Gilbert, Baltimore, Md.
John A. Linnett, Newark, N. J.
Ivan A. Thorson, Los Angeles, Calif.

* * *

# ROSTER OF MEMBERS

**(Figures in parenthesis following names indicate the Certificate Number issued to each Member, and the order of election.)**

## ALABAMA

**Birmingham**
John D. Chichester (228) .... 708 Jackson Bldg.
Frank B. Clark (261) .... 408 N. 21st St.
Hill Ferguson (242) .... 221 N. 21st St.
Harold M. Henderson (215) .... 2115 1st Ave.

## ARIZONA

**Phoenix**
Leonard M. Cowley (523) .... 15 W. Monroe St.

## ARKANSAS

**Little Rock**
Lawrence Witherspoon (531) .... 508 Donaghey Bldg.

## CALIFORNIA

**Burlingame**
Nathaniel B. Bender (347) .... 1422 Bellevue Ave.

**Eagle Rock**
Cloice D. Carll (410) .... 5376 Vincent Ave.

**Glendale**
Peter Hanson (11) .... 221 Arden Ave.

**Long Beach**
J. Mortimer Clark (50) .... 262 Lindero Ave.
J. C. Hoffman (71) .... 307 F. & M. Bank Bldg.
A. G. Maspero (51) .... 409 Security Bldg.
T. F. Merrick (27) .... Heartwell Bldg.

**Los Angeles**
Raymond F. Ahern (424) .... 1939 N. Hobart Blvd.
Ralph Brashear (86) .... 4157 W. 5th St.
David W. Bush (197) .... 616 O. T. Johnson Bldg.
George H. Coffin, Jr. (216) ... 408 Hollywood Security Bldg.
Ayers J. duBois (107) .... 7079 Hollywood Blvd.
Arthur L. Layden (104) .... 437 N. Windsor Blvd.
Nathan H. Libott (84) .... 6253 Hollywood Blvd.
Stanley L. McMichael (25) .... 6785 Whitley Terrace
Thurston H. Ross (427) .... 3465 Knollcrest Ave.
John W. Salmon (208) .... 2912 Brighton Ave.
D. D. Sayer, Jr. (278) .... 4100 E. 9th St.
George L. Schmutz (192) .... 8703 Santa Monica Blvd.
Charles B. Shattuck (110) .... 2510 S. Vermont Ave.
Ivan A. Thorson (199) .... 500 Corporation Bldg.
Fred E. Vincent (212) .... 3440 Winslow Drive
Richard C. Willis (321) .... 2221 W. 21st St.

**Oakland**
W. S. Guilford (46). Athens Athletic Club, 12th & Clay Sts.
Harold W. Jewett (527) .... 1819 Franklin St.
James G. Stafford (54) .... 5820 Presley Way

**Pasadena**
Louis M. Pratt (411) .... 164 N. Hudson Ave.

**Sacramento**
Mark Cheesman (189) .... 2964 Govan Way
A. J. Delano (126) .... 809 J St.
Thomas G. Mapel (367) .... 809 J St.

**San Diego**
Victor R. Lundy (532) .... 923 Seventh Ave.

**San Francisco**
W. G. Harris (430) .... 315 Montgomery St.
George I. Noyes (295) .... 821 Market St.
Edwin G. Wendland (342) .... 821 Market St., Room 562

**San Gabriel**
Frank C. Wood, Jr. (326) .... 420 Segovia Ave.

**Southgate**
Louis R. Ardouin (205) .... 2931 Willow Place

**Wilmington**
Thomas Francis Mason (151) .... Box 122

## COLORADO

**Denver**
Arthur D. Wall (519) .... 813 Majestic Bldg.

## CONNECTICUT

**Darien**
G. LeRoy Kemp (533) .... 179 Boston Post Road

**Hartford**
Joseph P. Kennedy (24) .... 720 Main St.
Aubrey Maddock (507) .... 50 State St.
H. Martin Tenney (534) .... 140 Garden St.

**New Britain**
William G. Dunn (535) .... 272 Main St.

**New Haven**
Wm. M. Hotchkiss (436) .... 205 Church St.
Charles T. Lincoln (265) .... 205 Church St.

**Stamford**
Richard W. Fitch (231) .... 292 Main St.

**Waterbury**
George B. Horan (275) .... 115 Randolph Ave.
John M. Hutchinson (500) .... 195 North Main St.

## DISTRICT OF COLUMBIA

**Washington**
Harold E. Doyle (82) .... 738 15th St., N. W.
Joseph A. Herbert, Jr. (69) .... 515 E. Capitol St.
A. C. Houghton (72) .... 909 15th St., N. W.
Morton J. Luchs (178) .... 1505 H St., N. W.
F. Eliot Middleton (280) .... Investment Bldg.
R. Marbury Stamp (258) .... 1421 H St., N. W.
Charles H. Tompkins (337) .... 1630 Connecticut Ave.
Curtis Walker (196) .... Tower Bldg.

***Members in Government Service:***

Frederick M. Babcock (435) .... Federal Housing Adm.
Wm. D. Burkheimer (309) .... (FHA) 3726 Connecticut Ave., N. W.
Warren S. Dean (313) .... (HOLC) 1619 R St.
Leonard Downie (296) .... HOLC Bldg.
Ayers J. duBois (107) .... Federal Housing Adm.
J. W. Graham (83) .... (FHA) Vermont and K St.
David L. Montonna (416) .... F. H. A.
Geo. P. Williams (387) .... 410 HOLC Bldg.
Carroll Wright (314) .... 410 HOLC Bldg.

## FLORIDA

**Fort Myers**
Harry J. Wood (187) .... 1112 1st St.

**Jacksonville**
V. M. Covington (48) .... 1316 Graham Bldg.
Louis R. Fendig (44) .... 23 Buckman Bldg.
Myron L. Howard (73) .... 516 Professional Bldg.
J. Alvin Register (4) .... 114 Graham Bldg.
Bainbridge Richardson (59) .... 117 W. Forsyth St.
Walter D. Shelly (217) .... 414 Greenleaf Bldg.
L. K. Tucker, Jr. (150) .... 319 W. Forsyth St.

**Lakeland**
Ernest Stephen Allsopp (517) .... Marble Arcade
John L. Wright (243) .... 117 S. Tenn. Ave.

**Miami**
Hollis Bush (98) .... P. O. Box 1030
Kenneth S. Keyes (115) .... 15 W. Flagler St.
Adrian McCune (74) .... 1017 Security Bldg.
D. Earl Wilson (80) .... 1017 Security Bldg.

**Orlando**
George F. Brass (160) .... P. O. Box 1052
Harold V. Condict (161) .... Box 1052
C. W. Rex (42) .... Box 293
J. C. Stewart (166) .... 112 N. Orange Ave.

**Sarasota**
Fred L. Palmer (127) .... 482 Main St.

**St. Petersburg**
John B. Green (308) .... 11 4th St., N.
Warren P. Hunnicutt (338) .... 302 Central Ave.

**Tampa**
Charles P. Glover (139) .... 811 Citrus Exchange Bldg.

**Vero Beach**
Frank R. Jewett (143) .... P. O. Box Q

**West Palm Beach**
Frank J. Anderson (223) .... 611 Harvey Bldg.

## GEORGIA

**Atlanta**
Bryan M. Grant (147) .... 206 Grant Bldg.
Robert R. Otis (256) .... 15 Auburn Ave.

## TERRITORY OF HAWAII

**Honolulu**
Charles J. Pietsch (417) .... 927 Fort St.

## ILLINOIS

### Calumet City
George N. Becker (245)........138 Pulaski Rd.

### Chicago
Graham Aldis (365)........53 W. Jackson Blvd.
Louis B. Beardslee (405)........100 N. LaSalle St.
George Becker (518)........11 S. LaSalle St.
Kenneth Calhoun Brown (210)........110 S. Dearborn St.
Harry S. Cutmore (194)........838 1st Natl. Bk. Bldg.
Dominick Dunn (370)........1330 Morse Ave.
Newton C. Farr (400)........140 S. Dearborn St.
Fred F. Gardner (530)........134 S. LaSalle St.
Harry Goldstine (350)........134 N. LaSalle St.
Earl George Gubbins (383)........6015 Lincoln Ave.
Arthur B. Hall (403)........407 S. Dearborn St.
John P. Hooker (52)........140 S. Dearborn St.
A. K. Hornof (173)........1411 1st Natl. Bank Bldg.
Ward T. Huston (209)........110 S. Dearborn St.
Isaac Keim (324)........2526 S. Wabash Ave.
Arthur Kruggel (341)........4865 Broadway
Walter R. Kuehnle (124)........140 S. Dearborn St.
J. Alton Lauren (442)........100 N. LaSalle St.
Mark Levy (9)........22 W. Monroe St.
Paul C. Loeber (399)........111 W. Washington St.
Ernest H. Lyons (195)........120 S. LaSalle St.
William C. McLennan (414)....6675 Northwest Highway
Francis E. Manierre (402)........5 S. Wabash Ave.
Orlo O. Montague (514)......1374 First Natl. Bk. Bldg.
Donald T. Morrison (382)........100 North LaSalle St.
William E. Mosby (297)........8032 Cottage Grove Ave.
Hyde W. Perce (406)........40 N. Dearborn St.
Lester W. Porter (407)........231 S. LaSalle St.
Geo. R. Quin (191)........36 S. State St.
Gilbert H. Scribner (401)........1st Natl. Bk. Bldg.
Henry George Slavik (301)........10 S. LaSalle St.
Paul Steinbrecher (409)........7 S. Dearborn St.
John Milton Trainer (404)........30 N. Michigan Ave.
Percy E. Wagner (318)........F.H.A., 134 N. LaSalle St.
Herman O. Walther (368)........111 S. Dearborn St.
J. Soule Warterfield (120)........8 S. Dearborn St.
Albert H. Wetten (408)........141 W. Jackson Blvd.

### Galesburg
Ralph V. Field (168)........203 Bk. of Galesburg Bldg.

### Joliet
William W. Mollan (288)........405 D'Arcy Bldg.

### Peoria
James H. Finnegan (428)........415 Peoria Life Bldg.

### Springfield
John J. Savage (536)........620 Illinois Bldg.

### Waukegan
Leo Dailey (388)........2 S. County St.
Oscar Soderquist (125)........22 Maple Ave.

## INDIANA

### East Chicago
Leonard C. Smith (440)........4534 Indianapolis Blvd.

### Fort Wayne
Claude L. Baker (129)........R. F. D. No. 2

### Gary
Charles D. Davidson (244)........504 Broadway
J. R. Davidson (123)........504 Broadway

### Hammond
Samuel C. Ennis (203)........1st Trust Bldg.

### Indianapolis
George A. Kuhn (35)........706 Guaranty Bldg.
Frank B. McKibbin (96)........1154 Consolidated Bldg.
John W. Roberts (448)........428 Illinois Bldg.

### South Bend
Richard A. Muessel (537)........205 Income Bldg.

## IOWA

### Cedar Rapids
John J. Wagner (266)........408 American Trust Bldg.

### Des Moines
Arthur S. Kirk (188)........900 Grand Ave.

### Sioux City
Willard L. Frost (21)........Security Bank Bldg.

## KANSAS

### Hutchinson
J. C. McNaghten (116)........1st Natl. Bk. Bldg.

### Topeka
David Neiswanger (426)........115 W. 6th Ave.

## KENTUCKY

### Louisville
I. Sidney Jenkins (334)........Louisville Trust Bldg.
Paul F. Semonin, Sr. (359)........321 Starks Bldg.

## LOUISIANA

### Shreveport
T. S. Neal (224)........330 Ricou-Brewster Bldg.
R. S. Whitten (351)........210 Milam St.

## MARYLAND

### Baltimore
Oregon Milton Dennis (132)....211 New Amsterdam Bldg.
W. E. Ferguson (47)........100 E. Pleasant St.
Harry E. Gilbert (18)........2 E. Lexington St.
Albert C. Hofrichter (162)........2 E. Lexington St.
John E. McGovern (316)........H.O.L.C., Equitable Bldg.
Chas. H. Steffey (88)........336 N. Charles St.

## MASSACHUSETTS

### Boston
W. H. Ballard (41)........45 Milk St.
Arthur B. Brooks (509)........18 Tremont St.
Edwin Deering Brooks (510)........18 Tremont St.
Edward F. Cassell (122)........18 Tremont St.
George L. DeBlois (505)........11 Pemberton Square
Norman W. Kenny (10)........82 Devonshire St.
John C. Kiley (397)........45 Bromfield St.
Arthur N. Maddison (504)........11 Pemberton Square
Robert C. Nordblom (336)........18 Oliver St.
George S. Parker (502)........87 Milk St.
Stephen W. Sleeper (508)........31 Milk St.
Robert S. Wayland (506)........10 State St.
Parker Webb (538)........24 Milk St.

### Brockton
Charles H. McKenney, Jr. (423)........106 Maine St.

### Fall River
J. Frederick Beckett (167)........49 Purchase St.
Myer Markell (165)........160 Bank St.
Everett N. Slade (53)........57 N. Main St.

### Lowell
John C. Percival (233) ........36 John St.

### Springfield
Henry M. Clark (287)........100 Broadway
Bion T. Wheeler (339)........1562 Main St.

### Worcester
Francis S. Bailey (524)........2 Foster St.
Charles A. Kabley (501)........340 Main St.
Maurice F. Reidy (8)........2 Foster St.

## MICHIGAN

### Detroit
Judson Bradway (392)........533 Majestic Bldg.
Matthew Carey (389)........2149 Union Guardian Bldg.
George W. Drennan (358)........300 Penobscot Bldg.
Guy S. Greene (394)........300 Lafayette Blvd.
Donald D. James (539)........2350 Penobscot Bldg.
Henry N. Johnson (390)........300 Penobscot Bldg.
Albert D. MacRae (540)........Union Guardian Bldg.
Alfred W. Palmer (312)......1920 Union Guardian Bldg.
Edmund T. Paterson (385)........3050 E. Grand Blvd.
Leonard P. Reaume (393)........2150 Buhl Bldg.
George C. Sexauer (395)........2150 Buhl Bldg.
William W. Tanney (434)........9061 W. Outer Drive
Clarence S. Vaughn (422)..2103 First National Bank Bldg.
Carl S. Wells (391)........2706 Eaton Tower

### Grand Rapids
J. G. Lloyd Alexander (246)........616 Murray Bldg.
Isaac Blandford (234)........105 Federal Square Bldg.
Leon T. Closterhouse (247)........
........American Home Security Bank
John Garfield Emery (304)........400 Central Bank Bldg.
Harry J. Fuller (235)........The Michigan Trust Co.
Walter S. Palmer (193)........104 Federal Square Bldg.
Arent Van Stensel (248)...1006 G. R. Savings Bank Bldg.
Charles H. Warden (229)........535 Michigan Trust Bldg.

### Lansing
Edward G. Hacker (291)........228 S. Capitol Ave.

### Pontiac
Paul A. Kern (134)........1st Natl. Bk. Bldg.

## MINNESOTA

### Duluth
Richard W. Northup (379)........17 Phoenix Bldg.

### Minneapolis

Fred L. Chapman (411)..........115 S. 5th St.
Norman L. Newhall (32)..........519 Marquette Ave.
Edwin L. Somerville (30).....519 Metropolitan Bank Bldg.
J. Frederick Sutherland (331)..........1477 Northwestern Bk. Bldg.

## MISSISSIPPI

### Jackson

J. O. Manning (299)..........3012 N. State St.

## MISSOURI

### Clayton

Gunther Meier (319)..........18 N. Meramec

### Joplin

Rolla E. Stephens (264)..........711 Virginia Ave.

### Kansas City

George M. Bliss (360)..........17 E. 10th St.
C. F. Curry (345)..........921 Baltimore Ave.
Herbert B. Patt (553)..........417 R. A. Long Bldg.
E. F. Pierson (289)..........311 Commerce Bldg.

### St. Louis

W. C. Bernard (91)..........317 N. 11th St.
William W. Butts (93)..........803 Chestnut St.
Herbert O. Byrd (302)..........818 Chestnut St.
Charles J. Daly (94)..........801 Chestnut St.
Otto J. Dickmann (225)..........623 Chestnut St.
Chester A. Dougherty (249)..........109 N. 7th St.
J. Gregory Driscoll (528)..........1501 Locust St.
John H. Farish (201)..........713 Chestnut St.
Grover Godwin (418)..........212 New Federal Bldg.
Joseph B. Hall (2)..........1311 S. 39th St.
Joseph W. Hannauer (15)..........811 Chestnut St.
Alfred B. Kissack (525)..........915 Olive St.
Curt C. Mack (449)..........714 Chestnut St.
Monroe H. Rodemyer (218)..........109 N. 8th St.
N. S. Wood (131)..........709 Chestnut St.

## NEBRASKA

### Lincoln

C. C. Kimball (381)..........228 Stuart Bldg.

### Omaha

E. H. Bideau (541)......621 Woodmen of the World Bldg.
C. D. Glover (67)..........913 City Natl. Bldg.
Lewis C. Sholes (23)..........U. S. National Bank Bldg.
Clinton B. Stuht (33)..........Aquila Court Bldg.

## NEW JERSEY

### Atlantic City

Maurice A. Kelley (325)..........20 S. Tennessee Ave.

### Butler

Frank B. Fay, Jr. (171)..........Fayson Lake

### Camden

Ralph D. Baker (60)..........924 Broadway
W. W. Chalmers (63)..........4th & Federal Sts.
J. William Markeim (86)..........4th & Federal Sts.
Abraham J. Rosenfeld (213)..........114 N. Broadway
Leon E. Todd (340)..........2623 Westfield Ave.
Philip Zinman (95)..........333 Arch St.

### East Orange

Frank H. Taylor (6)..........520 Main St.
Harry A. Taylor (108)..........520 Main St.

### Elizabeth

John K. Leeds (99)..........286 N. Broad St.
B. B. Miller (58)..........215 Broad St.
Burton Thompson (43)..........18 W. Jersey
Max Tieger (112).......... 207 Broad St.

### Hackensack

Isidoro Quintana (78)..........Court House Square

### Jersey City

George E. Dugan (236)..........86 Manhattan Ave.
Percy A. Gaddis (22)..........30 Journal Square Bldg.
D. E. C. Somers (175)..........700 Bergen Ave.
R. E. Thompson (419)......Centl. R. R. of N. J. Term.

### Linden

John Fedor (65)..........540 S. Wood Ave.

### Newark

Murray Apfelbaum (38)..........786 Broad St.
John J. Berry (56)..........982 Broad St.
Jos. L. Feibleman (66)..........17-19 William St.
George Goldstein (413)..........972 Broad St.
Franklin Hannoch (49)..........14 Park Place
Louis Herman (70)..........60 Park Place
Charles Frederick Kraemer (366)..........776 Broad St.
Rudolph Kruger (516)..........11 Hill St.
John A. Linnett (85)..........29 Elizabeth Ave.
E. J. Maier (75)..........187 Market St.
J. K. Powell (77)..........1060 Broad St.
Joel L. Schlesinger (87)..........31 Clinton St.
Harry J. Stevens (200)..........478 Central Ave.

### New Brunswick

Jas. A. O'Connell (186)..........392 George St.

### Newton

A. N. Lockwood (433)..........17 Main St.

### Ocean City

Elmer Jackson Pearl (330)..........801 Ocean Ave.

### Paterson

Joseph R. Lambert (443)..........20-22 Church St.

### Perth Amboy

Morris Goldfarb (109)..........265 Madison Ave.

### Plainfield

William G. McDowell (446)..........152 North Ave.

### Ridgewood

Frederick A. Tetor (364)..........1 E. Ridgewood Ave.
Samuel S. Walstrum (106)..........Ridgewood

### Rutherford

Charles A. Van Winkle (113)..........1 & 2 Station Sq.
Theodore Van Winkle (117)..........1 Station Sq.

### Union City

Edward McDermott (511)..........582 Bergenline Ave.

## NEW MEXICO

### Albuquerque

Joseph P. Deasy (377)..........122 S. 3rd St.

## NEW YORK

### Buffalo

A. P. Allingham (3)..........63 Niagara St.
P. V. Bowen (141)..........1006 Ellicott Sq.
Walter W. Cohn (81)..........155 Pearl St.
Cuthbert E. Reeves (19)..........Liberty Bank Bldg.

### Mechanicville

Franz H. Moak (40)..........37 N. Main St.

### Metropolitan New York

#### *Bronx*

Herman A. Acker (279)..........318 E. Kingsbridge Rd.
Amedeo Giordano (515)..........2488 Grand Concourse
Samuel E. McRickard (292)..........400 E. Fordham Rd.

#### *Brooklyn*

Stephen F. Barrera (133)..........191 Joralemon St.
George Baur (170)..........2609 Clarendon Rd.
Joseph William Catharine (503)........187 Montague St.
James P. Clark (550)..........478 Graham Ave.
James B. Fisher (57)..........160 Remsen St.
George H. Gray (17)..........310 Ashland Place
Bernard F. Hogan (29)..........451 5th Ave.
Arthur J. Horton (183)..........1214 Flatbush Ave.
George S. Horton (184)..........59 Lafayette Ave.
Frank M. McCurdy (39)..........158 Remsen St.
James F. Matthews (76)..........186 Joralemon St.
Charles W. Morrison (270)..........35 Pierrepont St.
M. C. O'Brien (190)..........798 Nostrand Ave.
Charles Partridge (92)..........397 Flatbush Ave.
Lewis H. Pounds (128)..........32 Court St.
Fenwick B. Small (31)..........1124 Myrtle Ave.
R. W. Walden (89)..........162 Remsen St.

#### *Manhattan*

Edward J. Crawford (373)..........225 Broadway
Sam W. Florence (206)..........2700 Woolworth Bldg.
Howard Geoghegan (512)..........51 Chambers St.
Dalton Granger De Witt (315)..........22 W. 48th St.
A. N. Gitterman (45)..........45 E. 49th St.
Bracton Goldstone (68)..........10 E. 40th St.
Frank D. Hall (159)..........393 7th Ave.
John R. Hoyt (290)..........17 E. 42nd St.
Robert Huntley (214)..........67 Liberty St.
S. E. Kazdin (269)..........70 Pine St.
John J. McCormick (445)..........51 Chambers St.
Clarence C. Merriott (357)..........50 E. 42nd St.
James R. Murphy (437)..........217 Broadway
Henry Musch, Jr. (157)......330 W. 42nd St., c/o HOLC
Charles A. Nehring (521)..........1441 St. Nicholas Ave.
Charles J. Pladwell (542)..........393 Seventh Ave.
Irving I. Rosenbaum (179)..........384 Broadway
I. Lincoln Seide (526)..........220 Broadway

Maurice R. Spear (543)....................225 Fifth Ave.
David Vogel (368)..........................150 Broadway

### *Nassau County*

Richard T. Childs (273)...........222 Front St., Mineola

### *Queens County*

Armand Brunswick (327)........90-26 161st St., Jamaica
William F. MacDermott (198)...89-70 162nd St., Jamaica
Axel J. Swenson (272)...41-27 29th St., Long Island City

### *Westchester County*

Robert A. Anderson (259).......34 E. 1st St., Mt. Vernon
Stephen L. Angell (220)........30 E. Parkway, Scarsdale
Vernon N. Bailey (322)......162 Main St., White Plains
Edward C. Heald (222)........20 S. Broadway, Yonkers
Edward H. Hufnagel (250)....10 Fourth Ave., Mt. Vernon
Albert W. Lockyer (294)......Depot Plaza, White Plains
Paul Wegener (90)...............114 Broadway, Yonkers
Edward M. West (305)......1 Martine Ave., White Plains

### Rochester

Abraham Berghash (219).............130 Clinton Ave., S.

### Schenectady

Wm. Garner Bee (415).......................278 State St.

### Syracuse

James H. Dawley (333)................121 E. Genesee St.
Edward Eagan (271).........204 Starrett-Syracuse Bldg.

## NORTH CAROLINA

### Asheville

B. H. Sumner (332)..............................Asheville

### Charlotte

S. T. Henderson (20)......................P. O. Box 1128

## OHIO

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John C. Kyle (102)................520 S. Firestone Blvd.
A. R. Ritzman (544).....................1099 S. Main St.
Fred E. Smith (298)......608 Broad Blvd., Cuyahoga Falls
W. F. Voges (105)......................1109 S. Main St.

### Alliance

L. D. Scranton (100).....................341 E. Main St.

### Canton

Mark Hambleton (146).................417 Mellett Bldg.
A. Ray Walters (439)...................524 Renkert Bldg.

### Cincinnati

Henry B. Bunker (545).........S. E. Cor. 4th & Vine Sts.
Howard R. Burgess (176)................104 Neave Bldg.
Fred Droege, Jr. (154)...................104 Neave Bldg.
J. George Ege (335)....................3040 Urwiler Ave.
James W. Farrell (149)...........S. W. Cor. 5th & Main
John H. Frey (156)...............7 Navara Apts., Sta. D
James J. Grogan (180)......S. W. Cor. 5th & Main Sts.
Albert J. Mayer (204)...........1515 1st Natl. Bk. Bldg.
P. Lincoln Mitchell (181).....S. W. Cor. 5th & Main Sts.
C. Stott Noble (202)..........................3428 Slettenius
Michael J. O'Bryne (429)...............4th and Vine Sts.
Russel Price (152)............S. W. Cor. 5th & Main Sts.
Walter S. Schmidt (111)......S. W. Cor. 5th & Main Sts.
Lewis R. Smith (139)................409 American Bldg.
John B. Spilker (155)....................104 Neave Bldg.
L. F. Steele (310)..........................209 W. 7th St.

### Cleveland

Talmage D. Auble (262)...............15509 Madison Ave.
Robert F. Berwald (300)...........1220 Williamson Bldg.
Ben B. Beyer (34).....................1425 Williamson Bldg.
James G. Bingham (328)...........1227 Williamson Bldg.
Raymond T. Cragin (282)......825 Natl. City Bk. Bldg.
W. J. Crawford, Jr. (323).............720 Cuyahoga Bldg.
Victor J. Free (431)..................215 Union Trust Bldg.
Walter R. Granger (285)...........310 Hippodrome Bldg.
Joseph J. Haas (164)...................200 Marshall Bldg.
Joseph Laronge (103)................600 Union Trust Bldg.
Edwin H. McIntosh (283)...1029 Society for Savings Bldg.
Warren L. Morris (251)........420 Natl. City Bk. Bldg.
E. L. Ostendorf (14)..........610 Natl. City Bank Bldg.
Carl A. Palmer (286)........................850 Euclid Ave.
Max J. Rudolph (281)......................1105 Chester Ave.
Carlton Schultz (37)...................1223 Schofield Bldg.
Alexander S. Taylor (142)..........1930 Union Tr. Bldg.
V. C. Taylor, II (153)..............1930 Union Trust Bldg.
Wm. J. Van Aken (284)......................1715 Euclid Ave.

### Columbus

Preston Cooke (551)........................8 East Broad St.
Charles F. Johnson (412).......................8 E. Long St.

### Dayton

Rufus Lisle (438)...................... .winters Bank Bldg.

### Geneva

J. Earl Miller (267)...............................Miller Bldg.

### Massillon

Charles N. Hostetter (329)..........716 Lincoln Way, E.

### Springfield

H. S. Kissell (5)....................927 1st Natl. Bk. Bldg.

### Toledo

Claude A. Campbell (211)..............707 Ohio Bank Bldg.
Edmund T. Collins (522)....................145 Superior St.
Geo. P. Crosby (252).......................413 Madison Ave.
Howard Etchen (136).............................725 Adams St.
Donald F. Hiett (396)...................622 Jefferson Ave.
John R. Schackne (529)......507 Produce Exchange Bldg.

## OKLAHOMA

### Tulsa

J. M. Allen (546).........................708 Beacon Bldg.
Clyde A. King (432).......................310 Beacon Bldg.

## OREGON

### Portland

Norman B. Plummer (447)...........201 Post Office Bldg.

## PENNSYLVANIA

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Wm. C. Bader (163)..............214 Odd Fellows Bldg.

### Erie

Carl G. Wright (361)..............204 Marine Bank Bldg.

### Harrisburg

Evan J. Miller (148).......................213 Locust St.

### Lancaster

Harry W. Butts (114)....................24 E. Orange St.

### Lansdowne

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Samuel T. Hall (257).........................1500 Locust St.
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William I. Mirkil (226).....................1500 Walnut St.
Robert J. Nash (254).........................1214 Locust St.
Glyndon Priestman (420)..............18 W. Chelten St.
Richard J. Seltzer (255).................15th & Locust Sts.
J. Willison Smith (239).....................100 S. Broad St.
Martin Stotz (55).......................514 Land Title Bldg.
Ambrose J. Winder (207)...................1420 Walnut St.

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E. Herbert Gilg (552)..................526 Federal St., N. S.

### Scranton

C. G. Chappell (376)........................Bliss Davis Bldg.

### Wilkes Barre

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Edward L. Lewith (227)...........428 Miners Bk. Bldg.

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**Houston**
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Emanuel E. Falk (548)..................1013 E. Main St.
Henry S. Raab (260)......................710 E. Main St.
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Morton G. Thalhimer (221)..............1013 E. Main St.

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J. C. McQuigg (344)....................1736 Belmont Ave.
A. C. Newell (348).............448 Dexter Horton Bldg.
Ben J. Smith (343)............. 5252 16th Ave., N. E.
J. H. Sparkman (349)........................1108 3rd Ave.
Cecil S. Van Voris (369).....(FHA) 1817 Exchange Bldg.
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C. C. Conner (263)....................First National Bank

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...................Box 1019, Charleston Natl. Bk. Bldg.
**Clarksburg**
Lyle B. Hornor (375)..........................Goff Bldg.
**Huntington**
H. E. Pilcher (371)..........................926 6th Ave.

## WISCONSIN

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Henry H. Bush (61).........................311 State St.
**Milwaukee**
K. Lee Hyder (185)..................525 E. Michigan St.

## ONTARIO, CANADA

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Bert Weir (138).........................156½ Dundas St.
**Toronto**
Cyril R. De Mara (12)..........................372 Bay St.
Frank McLaughlin (7)....................34 King St., W.

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*Herschel S. Green (16)......................West York*

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*Peter Hoek (19)..................750 Leonard St., N. W.*
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